

GC 40 Unit

UNIT OPERATING AGREEMENT

by and between

Fieldwood Energy LLC

and

Ridgewood Katmai, LLC

and

ILX Prospect Katmai, LLC

Outer Continental Shelf – Gulf of Mexico

Green Canyon Block 39 (NE/4NE/4 & N/2SE/4NE/4)-OCS-G 34966

Green Canyon Block 40 (SE/4SW/4NW/4, N/2SW/4NW/4, NW/4NW/4, E/2NW/4, E/2,
E/2SW/4 & E/2W/2SW/4)-OCS-G 34536

All of Green Canyon Block 41-OCS-G 34537

Ewing Bank Block 1009 (SE/4SE/4)-OCS-G 34878

Ewing Bank Block 1010 (S/2)-OCS-G 34879

Ewing Bank Block 1011 (S/2)-OCS-G 34880

Dated Effective April 1, 2018

Contents

2	ARTICLE 1 – CONTRACT APPLICATION	0
3	1.1 Application in General.....	0
4	1.2 Application to the Unit Area	0
5	ARTICLE 2 – DEFINITIONS.....	1
6	2.1 Additional Testing, Logging, or Sidewall Coring.....	1
7	2.2 Affiliate.....	1
8	2.3 Agreement	1
9	2.4 Annual Operating Plan.....	1
10	2.5 Appraisal Operation	1
11	2.6 Appraisal Well	2
12	2.7 Authorization for Expenditure (AFE).....	2
13	2.8 Claim	2
14	2.9 Complete Recoupment	2
15	2.10 Complete, Completion, Completed, Completing.....	2
16	2.11 Confidential Data	2
17	2.12 Unit Area.....	3
18	2.13 Costs	3
19	2.14 Deepen or Deepening	3
20	2.15 Deeper Drilling	3
21	2.16 Deepest Producing Reservoir	3
22	2.17 Define AFE.....	3
23	2.18 Define Stage	3
24	2.19 Development Operation.....	3
25	2.20 Development Phase	4
26	2.21 Development Plan.....	4
27	2.22 Development System	4
28	2.23 Development Well	4
29	2.24 Disproportionate Spending.....	4
30	2.25 DOI	4
31	2.26 Election, Elect, Elects, Elected, Electing	4
32	2.27 Enhanced Recovery Project Team AFE.....	4
33	2.28 Execution AFE.....	5
34	2.29 Execution Stage	5
35	2.30 Exploratory Operation	5
36	2.31 Exploratory Well.....	5
37	2.32 Export Pipelines	5
38	2.33 Facilities	5
39	2.34 Feasibility AFE.....	5
40	2.35 Feasibility Stage.....	6
41	2.36 Feasibility Team	6
42	2.37 Force Majeure	6
43	2.38 Gross Negligence	6
44	2.39 HSE.....	6
45	2.40 Hydrocarbon Recoupment	6
46	2.41 Hydrocarbons	6
47	2.42 Joint Account.....	7

1	2.43	Lease	7
2	2.44	News Release	7
3	2.45	Non-Consent Operation	7
4	2.46	Non-Operating Party	7
5	2.47	Non-Participating Party	7
6	2.48	Non-Participating Interest Share	7
7	2.49	Objective Depth	7
8	2.50	OCS	8
9	2.51	Offsite Host Facilities	8
10	2.52	Operator	8
11	2.53	Overinvested Party	8
12	2.54	Package Sale	8
13	2.55	Participating Interest Share, Participating Interest	8
14	2.56	Participating Party	9
15	2.57	Post-Production Project Team AFE	9
16	2.58	Producible Reservoir	9
17	2.59	Producible Well	9
18	2.60	Production System	9
19	2.61	Production Testing	10
20	2.62	Project Team	10
21	2.63	Receipt	10
22	2.64	Recompletion	11
23	2.65	Selection AFE	11
24	2.66	Selection Stage	11
25	2.67	Sidetrack, Sidetracks, Sidetracked, Sidetracking	11
26	2.68	Standby Charges	11
27	2.69	Transfer of Interest	11
28	2.70	Transfer Notice	12
29	2.71	Underinvested Party	12
30	2.72	Underinvestment	12
31	2.73	Vote	12
32	2.74	Well Control and Containment Requirements	12
33		The requirements imposed by the Bureau of Ocean Energy Management, Regulation	
34		and Enforcement's Notice to Lessees and Operators of Federal Oil and Gas	
35		Leases, Outer Continental Shelf No. 2010-N10 (<i>Statement of Compliance with</i>	
36		<i>Applicable Regulations and Evaluation of Information Demonstrating Adequate</i>	
37		<i>Spill Response and Well Containment Resources</i>) as from time to time amended,	
38		and those requirements imposed by any similar laws, orders, rules, or regulations	
39		pertaining to well control and containment in the OCS.	12
40	2.75	Well Plan	13
41	2.76	Willful Misconduct	13
42	2.77	Working Interest	13
43	2.78	Workover	14
44		ARTICLE 3 – EXHIBITS	14
45	3.1	Exhibits	14
46		ARTICLE 4 – SELECTION OF OPERATOR	15
47	4.1	Designation of the Operator	15

1	4.2	Substitute Operator	15
2	4.2.1	Substitute Operator if Operator is a Non-Participating Party	15
3	4.2.2	Substitute Operator if Operator Fails to Commence Operations	16
4	4.2.3	Circumstances Under Which the Operator Must Conduct a Non-Consent	
5		Operation.....	16
6	4.2.4	Operator's Conduct of a Non-Consent Operation in Which it is a Non-	
7		Participating Party.....	17
8	4.2.5	Appointment of a Substitute Operator	18
9	4.2.6	Redesignation of Operator	18
10	4.3	Resignation of Operator	18
11	4.4	Removal of Operator	18
12	4.4.1	Removal Upon Assignment	19
13	4.4.2	Removal for Cause by Vote	19
14	4.4.3	Timing of Vote to Remove Operator	20
15	4.5	Selection of Successor Operator.....	20
16	4.6	Effective Date of Resignation or Removal	20
17	4.7	Delivery of Property.....	21
18	ARTICLE 5 – RIGHTS AND DUTIES OF OPERATOR.....		21
19	5.1	Exclusive Right to Operate.....	21
20	5.2	Workmanlike Conduct	22
21	5.3	Operations.....	22
22	5.4	Liens and Encumbrances.....	22
23	5.5	Records.....	23
24	5.6	Reports to Government Agencies	23
25	5.7	Information to Participating Parties	23
26	5.8	Completed Well Information	25
27	5.9	Information to Non-Participating Parties.....	26
28	5.10	Health, Safety, and Environment:	26
29	ARTICLE 6 – EXPENDITURES AND ANNUAL OPERATING PLAN		26
30	6.1	Basis of Charges to the Parties.....	26
31	6.2	AFEs	27
32	6.2.1	AFE Overrun Notice	28
33	6.2.2	Supplemental AFEs	28
34	6.2.3	Further Operations During a Force Majeure.....	30
35	6.2.4	Long Lead Well Operation AFEs	31
36	6.2.5	Unit Area Assessment and Permitting AFEs	33
37	6.3	Security Rights	35
38	6.4	Annual Operating Plan.....	35
39	6.4.1	Effect and Content of Annual Operating Plan	35
40	6.4.2	Submission of Draft Annual Operating Plan	37
41	6.4.3	Review of Draft Annual Operating Plan.....	37
42	ARTICLE 7 – CONFIDENTIALITY OF DATA		37
43	7.1	Confidentiality Obligation.....	37
44	7.1.1	Exceptions to Confidentiality	38
45	7.1.2	Permitted Disclosures	38
46	7.1.3	Limited Releases to Offshore Scout Association.....	40

1	7.1.4	Continuing Confidentiality Obligation	40
2	7.2	Ownership of Confidential Data	40
3	7.2.1	Trades of Confidential Data	40
4	7.2.2	Ownership of Non-Consent Data	41
5	7.3	Access to the Lease and Rig	41
6	7.4	Development of Proprietary Information and/or Technology	41
7	ARTICLE 8 – APPROVALS AND NOTICES		42
8	8.1	Classes of Matters	42
9	8.1.1	Voting and Electing Interest	42
10	8.2	Voting and Election Procedures	42
11	8.2.1	Approval by Vote	43
12	8.2.2	Approval by Election	43
13	8.3	Second Opportunity to Participate	43
14	8.4	Participation by Fewer Than All Parties	44
15	8.5	Approval by Unanimous Agreement	44
16	8.6	Response Time for Notices	45
17	8.6.1	Well, Well Operations, or Supplemental AFEs for a Well or Well Operation	
18		Proposals	45
19	8.6.2	Execution AFE	46
20	8.6.3	Other AFE Related Operations	46
21	8.6.4	Other Proposals	46
22	8.6.5	Failure to Vote or Make an Election	46
23	8.6.6	Suspensions of Operations and Suspensions of Production	47
24	8.6.7	Standby Charges Associated with Immediate Substitute Wells, Subsequent	
25		Operations, and/or Supplemental AFE Proposals	47
26	8.7	Giving and Receiving Notices and Responses	48
27	8.8	Content of Notices	48
28	8.9	Designation of Representatives	49
29	8.10	Meetings	50
30	8.11	Obligations of Participation Election	50
31	8.11.1	Mobilization Charges	50
32	ARTICLE 9 – NEWS RELEASES		50
33	9.1	Proposal of News Releases	50
34	9.1.1	Operator’s News Release	51
35	9.1.2	Non-Operating Party’s News Release	52
36	9.2	Emergency New Releases	52
37	9.3	Mandatory News Releases	52
38	ARTICLE 10 – EXPLORATORY OPERATIONS		53
39	10.1	Proposal of Exploratory Wells	53
40	10.1.1	Pre-Exploratory Well AFE Meeting	53
41	10.1.2	Revision of Well Plan	53
42	10.1.3	Automatic Revision of the Well Plan	55
43	10.1.4	Timely Operations	55
44	10.1.5	AFE Overruns and Substitute Well	56
45	10.2	Exploratory Operations at Objective Depth	57
46	10.2.1	Response to Operator’s Proposal	58

1	10.2.2	Response to Highest Priority Proposal	59
2	10.2.3	Response on Next Highest Priority Proposal	60
3	10.2.4	Non-Participating Parties in Exploratory Operations at Objective Depth	60
4	10.2.5	Participation in a Sidetrack or Deepening by a Non-Participating Party in an	
5		Exploratory Well at Initial Objective Depth	61
6	10.3	Permanent Plugging and Abandonment and Cost Allocation	61
7	10.4	Conclusion of Exploratory Operations	62
8	ARTICLE 11 – APPRAISAL OPERATIONS		63
9	11.1	Proposal of Appraisal Wells	63
10	11.1.1	Pre-Appraisal Well AFE Meeting	63
11	11.1.2	Revision of Well Plan	63
12	11.1.3	Automatic Revision of the Well Plan	63
13	11.1.4	Timely Operations	64
14	11.1.5	AFE Overruns and Substitute Well	64
15	11.2	Appraisal Operations at Objective Depth	65
16	11.2.1	Response to Operator’s Proposal	67
17	11.2.2	Response to Highest Priority Proposal	68
18	11.2.3	Response on Next Highest Priority Proposal	68
19	11.2.4	Non-Participating Parties in Appraisal Operations at Objective Depth	69
20	11.2.5	Participation in a Sidetrack or Deepening by a Non-Participating Party in an	
21		Appraisal Well at Objective Depth	69
22	11.3	Appraisal Well Proposals That Include Drilling Below the Deepest Producing	
23		Reservoir	70
24	11.4	Permanent Plugging and Abandonment and Cost Allocation	70
25	11.5	Conclusion of Appraisal Operations	71
26	11.6	Operations Before the Approval of the Development Plan	72
27	ARTICLE 12 – DEVELOPMENT PHASES		72
28	12.1	Phased Development	72
29	12.2	Feasibility Team Proposal	72
30	12.2.1	Feasibility AFE Approval	74
31	12.2.2	Feasibility Team and Feasibility Stage Conclusion	74
32	12.3	Commencement of the Selection Stage	74
33	12.3.1	Proposal of a Project Team	74
34	12.3.2	Selection AFE Approval	76
35	12.4	Proposal of a Development Plan	76
36	12.4.1	Content of the Development Plan	77
37	12.5	Development Plan Approval	80
38	12.5.1	Unanimous Approval of a Development Plan	80
39	12.5.2	Approval of a Development Plan by Vote	80
40	12.5.3	Approval of a Development Plan if One is Not Approved by Vote	81
41	12.5.4	Approved Development Plan	82
42	12.6.1	Long Lead Development System AFEs	82
43	12.7	Define Stage and Execution Stage	84
44	12.7.1	Execution AFE	84
45	12.7.2	Approval of an Execution AFE and Commencement of the Execution Stage	84
46	12.7.3	Minor Modifications to Development Plans	85
47	12.7.4	Major Modifications to Development Plans	85

1	12.7.5	Major Modifications to Development Plans Prior to the Approval of the	
2		Execution AFE.....	87
3	12.7.6	Major Modifications to Development Plans After the Approval of the	
4		Execution AFE.....	87
5	12.7.7	Approval of Major Modifications	88
6	12.7.8	Termination of a Development Plan	88
7	12.7.9	Timely Operations for Development Systems	89
8	12.8	Post-Production Project Team AFEs	89
9	12.9	Subsequent Development Phases	90
10	12.9.1	Proposal of a Subsequent Development Phase	90
11	12.9.2	Execution AFE in a Subsequent Development Phase.....	90
12	12.10	Access to Existing Facilities	91
13	12.11	Enhanced Recovery and/or Pressure Maintenance Program Proposals	91
14	ARTICLE 13 – DEVELOPMENT OPERATIONS		92
15	13.1	Proposal of Development Wells and Development Operations	92
16	13.1.1	Proposal of Development Wells Included in a Development Plan	92
17	13.1.2	Proposal of Development Operations Not Included in a Development Plan....	93
18	13.1.3	Pre-Development Well AFE Meeting.....	93
19	13.1.4	Timely Operations	93
20	13.1.5	AFE Overruns and Substitute Well.....	94
21	13.2	Development Operations at Objective Depth	95
22	13.2.1	Response to Operator’s Proposal.....	96
23	13.2.2	Response to Highest Priority Proposal	97
24	13.2.3	Response on Next Highest Priority Proposal	97
25	13.2.4	Non-Participating Parties in Development Operations at Objective Depth.....	98
26	13.2.5	Participation in a Subsequent Development Operation by a Non-	
27		Participating Party in a Development Well at Objective Depth	98
28	13.3	Development Well Proposals That Include Drilling Below the Deepest Producing	
29		Reservoir	99
30	13.3.1	Multiple Completion Alternatives Above and Below the Deepest Producing	
31		Reservoir	99
32	13.3.2	Completion Attempts At or Above the Deepest Producing Reservoir	100
33	13.4	Recompletions and Workovers	101
34	13.5	Permanent Plugging and Abandonment and Cost Allocation	101
35	ARTICLE 14 – FACILITIES AND GATHERING SYSTEMS		102
36	14.1	Facilities as a Part of Development Plan	102
37	14.2	Use of Offsite Host Facilities	103
38	14.3	Use of Development Systems	103
39	14.4	Processing Priorities.....	103
40	14.5	Approval of Additional Facilities.....	104
41	14.6	Expansion or Modification of Existing Production System	105
42	14.7	Additions, Expansion, or Modification of Production System or Facilities for	
43		Health, Safety, or Environmental Reasons	105
44	14.8	Repairs of Production System or Facilities.....	106
45	ARTICLE 15 – DISPOSITION OF HYDROCARBON PRODUCTION		106
46	15.1	Duty to Take in Kind	106

1	15.2	Facilities to Take in Kind.....	106
2	15.3	Failure to Take Oil and/or Condensate in Kind.....	106
3	15.4	Gas Balancing Provision.....	107
4	15.5	Expenses of Delivery in Kind	107
5	ARTICLE 16 – NON-CONSENT OPERATIONS		107
6	16.1	Conduct of Non-Consent Operations	107
7	16.1.1	Costs.....	107
8	16.1.2	Multiple Completions	108
9	16.2	NOTE: It is hereby agreed amongst the signatories of this Unit Operating	
10		Agreement that the Acreage Forfeiture Provisions for the First Exploratory Well	
11		and Substitute Wells(s) for the First Exploratory Well are not applicable to this	
12		Unit Agreement.	109
13		Acreage Forfeiture Provisions	109
14	16.2.1	First Exploratory Well & Substitute Well(s) for the First Exploratory Well..	109
15	16.2.2	Execution AFE.....	110
16	16.3	Costs and Liabilities of Prior Operations	111
17	16.4	Non-Consent Operations to Maintain Unit Area	111
18	16.4.1	Acreage Forfeiture in the Entire Unit Area.....	112
19	16.4.2	Acreage Forfeiture in a Portion of a Unit Area.....	112
20	16.4.3	Limitations on Acreage Forfeiture.....	113
21	16.5	Percentage Hydrocarbon Recoupment for Non-Consent Operations.....	114
22	16.5.1	Non-Consent Exploratory Operations down to Objective Depth in the First	
23		Exploratory Well.....	114
24	16.5.2	Non-Consent Appraisal Operations	115
25	16.5.3	Non-Consent Proprietary Geophysical Operations, Feasibility AFEs,	
26		Selection AFEs, Define AFEs, Long Lead Development System AFEs,	
27		Post-Production Project Team AFEs, Enhanced Recovery Project Team	
28		AFE or Long Lead Well Operation AFEs.....	115
29	16.5.4	Non-Consent Development Operations	115
30	16.5.5	Non-Consent Subsequent Development System and Additional Facilities	116
31	16.5.6	Additional Hydrocarbon Recoupment	116
32	16.5.7	Hydrocarbon Recoupment From Production	116
33	16.6	Restoration of Interests to Non-Participating Party	118
34	16.6.1	Dry Hole Reversion	118
35	16.6.2	Sidetracking or Deepening a Non-Consent Well.....	119
36	16.7	Operations From a Subsequent Non-Consent Development System	119
37	16.8	Allocation of Development System Costs to Non-Consent Operations	120
38	16.8.1	Investment Charges.....	120
39	16.8.2	Payments	121
40	16.8.3	Operating and Maintenance Charges	121
41	16.9	Settlement of Underinvestments	122
42	16.9.1	Cash Settlement of Underinvestment.....	123
43	ARTICLE 17 – WITHDRAWAL FROM AGREEMENT		123
44	17.1	Right to Withdraw	123
45	17.2	Response to Withdrawal Notice	124
46	17.2.1	Unanimous Withdrawal	124
47	17.2.2	No Additional Withdrawing Parties.....	124

1	17.2.3	Acceptance of the Withdrawing Parties' Interests	125
2	17.2.4	Effects of Withdrawal	125
3	17.3	Limitation Upon and Conditions of Withdrawal	125
4	17.3.1	Prior Expenses	125
5	17.3.2	Confidentiality	126
6	17.3.3	Emergencies and Force Majeure	127
7		ARTICLE 18 – ABANDONMENT AND SALVAGE	127
8	18.1	Abandonment of Wells	127
9	18.2	Abandonment of Equipment	128
10	18.3	Disposal of Surplus Materiel	129
11	18.4	Abandonment Operations Required by Governmental Authority	129
12		ARTICLE 19 – RENTALS, ROYALTIES, AND MINIMUM ROYALTIES	129
13	19.1	Burdens on Hydrocarbon Production	129
14	19.1.1	Subsequently Created Lease Burdens	130
15	19.2	Payment of Rentals and Royalties	130
16	19.2.1	Non-Participation in Payments	131
17	19.2.2	Royalty Payments	131
18		ARTICLE 20 – TAXES	131
19	20.1	Internal Revenue Provision	131
20	20.2	Other Taxes and Assessments	131
21	20.2.1	Property Taxes	132
22	20.2.2	Production and Severance Taxes	132
23		ARTICLE 21 – INSURANCE AND BONDS	132
24	21.1	Insurance	132
25	21.2	Bonds	133
26		ARTICLE 22 – LIABILITY, CLAIMS, AND LAWSUITS	133
27	22.1	Individual Obligations	133
28	22.2	Notice of Claim	133
29	22.3	Settlements	133
30	22.4	Defense of Claims	133
31	22.5	Liability for Damages	134
32	22.6	Indemnification for Non-Consent Operations	135
33	22.7	Damage to Reservoir and Loss of Reserves	135
34	22.8	Non-Essential Personnel	135
35	22.9	Dispute Resolution Procedure	136
36		ARTICLE 23 – CONTRIBUTIONS	137
37	23.1	Contributions from Third Parties	137
38	23.2	Methods of Obtaining Contributions	137
39	23.3	Counteroffers	137
40	23.4	Approval of Contributions	138
41	23.5	Cash Contributions	138
42	23.6	Acreage Contributions	138

1	23.6.1	Two or More Parties Own One Hundred Percent of the Acreage	
2		Contribution	138
3	23.6.2	Two or More Parties Own Less Than One Hundred Percent of the Acreage	
4		Contribution	139
5	ARTICLE 24 – TRANSFER OF INTEREST AND PREFERENTIAL RIGHT TO		
6	PURCHASE.....		139
7	24.1	Transfer of Interest	139
8	24.1.1	Exceptions to Transfer Notice.....	140
9	24.1.2	Effective Date of Transfer of Interest	140
10	24.1.3	Maintenance of Uniform Interest and Minimum Transfer of Interest	141
11	24.1.4	Form of Transfer of Interest.....	141
12	24.1.5	Warranty	141
13	24.2	Preferential Right to Purchase.....	141
14	24.2.1	Notice of Proposed Transfer of Interest	141
15	24.2.2	Exercise of Preferential Right to Purchase	142
16	24.2.3	Transfer of Interest Not Affected by the Preferential Right to Purchase	143
17	24.2.4	Completion of Transfer of Interest.....	144
18	ARTICLE 25 – FORCE MAJEURE.....		144
19	25.1	Force Majeure	144
20	ARTICLE 26 – ADMINISTRATIVE PROVISIONS		145
21	26.1	Term	145
22	26.2	Waiver	145
23	26.3	Waiver of Right to Partition.....	145
24	26.4	Compliance With Laws and Regulations.....	145
25	26.4.1	Applicable Law	146
26	26.4.2	Severance of Invalid Provisions.....	146
27	26.4.3	Fair and Equal Employment	146
28	26.5	Construction and Interpretation of this Agreement	147
29	26.5.1	Headings for Convenience	147
30	26.5.2	Article References.....	147
31	26.5.3	Gender and Number.....	147
32	26.5.4	Joint Preparation	147
33	26.5.5	Integrated Agreement.....	147
34	26.5.6	Binding Effect.....	147
35	26.5.7	Further Assurances.....	148
36	26.5.8	Counterpart Execution	148
37	26.5.9	Currency.....	148
38	26.5.10	Future References	148
39	26.6	Restricted Bidding.....	148
40	EXHIBIT “C”.....		155
41	I. GENERAL PROVISIONS		155

1	EXHIBIT “D”	171
2	EXHIBIT “E”	177
3	EXHIBIT “F”	178
4	EXHIBIT “G”	184
5	EXHIBIT “H”	193
6	DISPUTE RESOLUTION PROCEDURE	193
7	EXHIBIT “I”	195
8	EXHIBIT “J”	207
9	EXHIBIT “K”	209
10	MEMORANDUM OF UNIT OPERATING AGREEMENT	209

11

UNIT OPERATING AGREEMENT
OUTER CONTINENTAL SHELF – GULF OF MEXICO

This Unit Operating Agreement (this “Agreement”), effective as of April 1, 2018 (the “Effective Date”), is between Fieldwood Energy LLC. (referred to herein as “Fieldwood or Operator”), Ridgewood Katmai, LLC (“Ridgewood”), and ILX Prospect Katmai, LLC, (“ILX”), the signers of this Agreement. The companies named above, and their respective successors and assignees (if any), are referred to individually as a “Party” and collectively as the “Parties.”

WHEREAS, the Parties own the Lease(s) identified on Exhibit “A” (*Unit Area, Description of, the Lease(s), Working Interest of the Parties, Operator and Company Representatives and Notification Information*) located in the Unit Area, and desire to jointly explore, appraise, develop, and operate the Lease(s) lying within the Unit Area for the production of Hydrocarbons.

NOW, THEREFORE, in consideration of the premises and mutual promises in this Agreement, the Parties agree to explore, appraise, develop, and operate the Lease(s) in the Unit Area under the following provisions:

ARTICLE 1 – CONTRACT APPLICATION

1.1 Application in General

This Agreement governs the rights and obligations of the Parties relating, without limitation, to the joint exploration, appraisal, development, and operation, of the Unit Area for the production of Hydrocarbons there from and the transportation of same by pipeline(s) or otherwise from the Unit Area. As of the Effective Date, this Agreement supercedes and cancels all previously entered into operating agreements, insofar as these agreements affect any Lease, or portion(s), thereof contributing to the Unit Area.

1.2 Application to the Unit Area

This Agreement applies to the entire Unit Area described in Exhibit “A”. Unless otherwise provided in this Agreement, all the rights and obligations in and under the Lease(s) comprising the Unit Area (encompassing the Unit Area), all joint property and all Hydrocarbons produced from the Unit Area shall be owned jointly by the Parties according to their respective Working Interest in the Unit Area.

ARTICLE 2 – DEFINITIONS

As used in this Agreement (or in the Exhibits attached hereto), the following capitalized terms shall have the meaning ascribed to them below in this Article 2 (*Definitions*):

2.1 Additional Testing, Logging, or Sidewall Coring

Testing (excluding Production Testing), logging, or sidewall coring that is in addition to that approved by virtue of a previously approved well or subsequent operation.

2.2 Affiliate

A corporation, company, limited liability company, partnership, or other legal entity that:

- (a) is owned or controlled by a Party,
- (b) is owned or controlled by another corporation, company, limited liability company, partnership, or other legal entity that is owned or controlled by a Party,
- (c) owns or controls a Party, or
- (d) is owned or controlled by a corporation, company, limited liability company, partnership, or other legal entity that owns or controls a Party.

For the purposes of this definition, ownership or control means (i) the ownership, directly or indirectly, of fifty percent (50%) or more of the shares, voting rights, or interest in a corporation, company, limited liability company, partnership, or other legal entity; or (ii) any entity managed and/or controlled by a Party whether by contract or otherwise.

2.3 Agreement

This Unit Operating Agreement, together with its attached Exhibits, and any extension, renewal, or amendment agreed to in writing by the Parties.

2.4 Annual Operating Plan

The operational plan and estimate of Costs for activities and operations, as described in Article 6.4 (*Annual Operating Plan*).

2.5 Appraisal Operation

Any operation within the Unit Area proposed and conducted under Article 11 (*Appraisal Operations*).

1 **2.6 Appraisal Well**

2 A well proposed and drilled as an Appraisal Operation [including, but not limited to, a
3 substitute well for an Appraisal Well abandoned under Article 11.1.5 (*AFE Overruns and*
4 *Substitute Well*)].

5 **2.7 Authorization for Expenditure (AFE)**

6 An authorization for expenditure consisting of a written description and Cost estimate of a
7 proposed activity or operation accompanying a proposal for that activity or operation.

8 **2.8 Claim**

9 Any claim, lawsuit, hearing (administrative or judicial) or other proceeding made against
10 a Party or other person or entity on account of a matter involving activities or operations
11 under this Agreement or affecting the Lease(s) or the Unit Area.

12 **2.9 Complete Recoupment**

13 The point in time when the Participating Parties have been reimbursed, through
14 Hydrocarbon Recoupment, through Disproportionate Spending, or through a lump sum
15 cash settlement, an amount equal to the Non-Participating Party's Non-Participating
16 Interest Share of the Costs of the Non-Consent Operation multiplied by the applicable
17 percentage provided in Article 16 (Non-Consent Operations).

18 **2.10 Complete, Completion, Completed, Completing**

19 An operation intended to complete a well for the production of Hydrocarbons in one or
20 more geological horizons or zones, including, not limited to, the setting of production
21 casing, perforating, well stimulation and production testing conducted in such operation.

22 **2.11 Confidential Data**

23 All proprietary geophysical, geological, geochemical, drilling, or engineering data
24 acquired or derived from joint operations conducted within the Unit Area pursuant to this
25 Agreement and all analyses, compilations, maps, models, interpretations, and other
26 documents that reflect or incorporate that data. The term also includes, but is not limited
27 to:

- 28 (a) the provisions of this Agreement, subject to Exhibit "I"; and
- 29 (b) commercial, contractual, and financial information acquired or derived from
- 30 activities or operations conducted under this Agreement;

1 however, the term does not include the fact that the Operator has let a contract for an
2 activity or operation to be conducted under this Agreement. The term excludes
3 “Confidential Information” as that term is defined in Exhibit “G.”

4 **2.12 Unit Area**

5 The OCS Lease(s), or portions thereof, listed on Exhibit “A.”

6 **2.13 Costs**

7 The monetary amount of all expenditures (or indebtedness), including any fines or penalties
8 (except to the extent such fines or penalties are attributable to a Party’s Gross Negligence
9 or Willful Misconduct), incurred by the Operator and the Participating Parties in the
10 conduct of activities and operations, determined under this Agreement.

11 **2.14 Deepen or Deepening**

12 An operation to drill an existing well (including sidetracking a well) deeper than the
13 stratigraphic equivalent of the Objective Depth of any prior operation conducted in the
14 well.

15 **2.15 Deeper Drilling**

16 The drilling of an Appraisal Well or Development Well below the Deepest Producing
17 Reservoir in existence when the well is proposed.

18 **2.16 Deepest Producing Reservoir**

19 The deepest Producing Reservoir in existence when a drilling or Deeper Drilling proposal
20 is made.

21 **2.17 Define AFE**

22 The AFE for the Define Stage.

23 **2.18 Define Stage**

24 The stage of a Development Phase during which the Operator, with the assistance of the
25 Project Team, if applicable, will (a) commence the implementation of a Development Plan,
26 (b) complete enough of the detailed design of the Development System to enable
27 contractors to formulate their bids on the components of the Development System, and (c)
28 submit an Execution AFE to the Parties for their review and approval.

29 **2.19 Development Operation**

30 Any operation within the Unit Area other than an Exploratory Operation or an Appraisal
31 Operation conducted pursuant to an approved Development Plan.

1 **2.20 Development Phase**

2 The proposals, activities, and operations associated with determining the feasibility of
3 development and the design, fabrication or acquisition, and installation of a Development
4 System within the Unit Area.

5 **2.21 Development Plan**

6 The plan for a Development Phase, and developing and producing Hydrocarbons from the
7 Unit Area as described in Article 12 (*Development Phases*).

8 **2.22 Development System**

9 A Production System and its associated Facilities.

10 **2.23 Development Well**

11 A well proposed and drilled as a Development Operation [including, but not limited to, a
12 substitute well for a Development Well abandoned under Article 13.1.4 (*AFE Overruns*
13 and *Substitute Well*)].

14 **2.24 Disproportionate Spending**

15 The payment of the Costs of an activity or operation by a Participating Party in excess of
16 its Participating Interest Share of the Costs of that activity or operation in order to settle an
17 Underinvestment previously incurred by that Participating Party.

18 **2.25 DOI**

19 The United States Department of Interior and the various agencies thereunder responsible
20 for the department's management of energy resources on the Outer Continental Shelf,
21 including (a) Bureau of Ocean Energy Management, (b) Bureau of Safety and
22 Environmental Enforcement, and (c) Office of Natural Resources Revenue, and any
23 predecessor or successor agencies thereto.

24 **2.26 Election, Elect, Elects, Elected, Electing**

25 A response or deemed response by a Party to a proposal requiring approval under Article
26 8.2.2 (*Approval by Election*), or the act by a Party of responding to a proposal requiring
27 approval under Article 8.2.2 (*Approval by Election*).

28 **2.27 Enhanced Recovery Project Team AFE**

29 The AFE that is to accompany a proposal for the formation of a Project Team whose sole
30 scope of work is the design of an enhanced recovery and/or pressure maintenance program.

1 **2.28 Execution AFE**

2 A collection of AFEs, which, according to the submitting Party's estimates, will cover all
3 of the Costs of the Execution Stage (which do not include the Costs of Development Wells),
4 and which shall be deemed by the Parties to have been submitted as one AFE.

5 **2.29 Execution Stage**

6 The final stage of a Development Phase during which the Operator, with the assistance of
7 the Project Team, if applicable, will complete the implementation of the Development Plan,
8 implement the Execution AFE, and commence the first production of Hydrocarbons for
9 that particular Development Phase.

10 **2.30 Exploratory Operation**

11 Any operation within the Unit Area proposed and conducted under Article 10 (*Exploratory*
12 *Operations*).

13 **2.31 Exploratory Well**

14 A well proposed and drilled as an Exploratory Operation [including, but not limited to, a
15 substitute well for an Exploratory Well abandoned under Article 10.1.5 (*AFE Overruns*
16 *and Substitute Well*)].

17 **2.32 Export Pipelines**

18 Pipelines to which a gathering line or lateral line downstream of the Development System
19 is connected and which are used to transport Hydrocarbons or produced water to shore.

20 **2.33 Facilities**

21 Production equipment located downstream of the wellhead connections, which is installed
22 on or outside the Unit Area in order to enhance, handle, or process Hydrocarbon production
23 or transport Hydrocarbons to processing facilities. Facilities include, but are not limited
24 to, control umbilicals, disposal wells and their associated components, flowlines, and
25 gathering lines or lateral lines and their associated components that are paid for by the Joint
26 Account. Facilities exclude (1) Production Systems, (2) Export Pipelines, (3) the
27 equipment procured and utilized for an enhanced recovery and pressure maintenance
28 program described in Article 12.11 (*Enhanced Recovery and/or Pressure Maintenance*
29 *Program Proposals*), and (4) the facilities referred to in Article 15.2 (*Facilities to Take in*
30 *Kind*).

31 **2.34 Feasibility AFE**

32 The AFE for the Feasibility Stage.

1 **2.35 Feasibility Stage**

2 The stage of a Development Phase during which the Operator, with the assistance of the
3 Feasibility Team, will attempt to find at least one scenario for the development of
4 Hydrocarbons, which is technologically and economically feasible.

5 **2.36 Feasibility Team**

6 A group of employees, contractors, and/or consultants of the Participating Parties or their
7 respective Affiliates that assists the Operator during the Feasibility Stage.

8 **2.37 Force Majeure**

9 An event or cause that is reasonably beyond the control of the Party claiming the existence
10 of such event or cause, which includes, but is not limited to, a flood, storm, hurricane, loop
11 current/eddy, or other act of God; a fire, loss of well control, oil spill, or other
12 environmental catastrophe; a war, a civil disturbance, a terrorist act, a labor dispute, a
13 strike, a lockout; an inability to immediately comply with a law, order, rule, or regulation;
14 a governmental action or delay in granting necessary permits or permit approvals; the
15 inability to secure materials or a rig; or the inability to anchor up a rig due to the presence
16 of other rigs or vessels on or around the Unit Area.

17 **2.38 Gross Negligence**

18 With respect to a Party, shall mean any act or failure to act by any person or entity which
19 constitutes gross negligence as defined by applicable law.

20 **2.39 HSE**

21 Health, safety, and environment.

22 **2.40 Hydrocarbon Recoupment**

23 An amount to be recovered by the Participating Parties from all or part of the Non-
24 Participating Interest Share of the proceeds from the sale of future Hydrocarbon production
25 equal to the Non-Participating Interest Share of the Costs of the Non-Consent Operation
26 multiplied by the applicable percentage in Article 16 (*Non-Consent Operations*).

27 **2.41 Hydrocarbons**

28 The oil, gas, and associated liquid and gaseous by-products (except helium) that may be
29 produced from a well bore on the Unit Area.

1 **2.42 Joint Account**

2 The account maintained by the Operator under this Agreement, showing the charges paid
3 and credits received in connection with the joint activities and joint operations conducted
4 under this Agreement.

5 **2.43 Lease**

6 Each OCS federal oil and gas lease (or portion thereof) identified in Exhibit “A.”

7 **2.44 News Release**

8 A press release or other public announcement or disclosure by a Party containing a
9 reference, either directly or by implication, to this Agreement or the activities or operations
10 herein contemplated, including, but not limited to, any public release via print media,
11 broadcast news, internet, extranet, public networks or service providers, and discussions
12 with journalists.

13 **2.45 Non-Consent Operation**

14 An activity or operation proposed and approved under this Agreement in which one or
15 more Parties, having the contractual right to do so, Elect or Vote not to participate, except
16 when an activity or operation is approved by Vote and the approval binds all Parties.

17 **2.46 Non-Operating Party**

18 A Party other than the Operator.

19 **2.47 Non-Participating Party**

20 A Party who, having the contractual right to do so, makes or is deemed to have made, an
21 Election or Vote not to participate in sharing the Costs, risks, and benefits (including the
22 rights to Hydrocarbons) of an activity or operation proposed and approved under this
23 Agreement, except when an activity or operation is approved by Vote and the approval
24 binds all Parties.

25 **2.48 Non-Participating Interest Share**

26 The percentage of participation in the Costs, risks, and benefits (including rights to
27 Hydrocarbons) that a Non-Participating Party would have had in a proposed activity or
28 operation if all Parties had participated in that proposed activity or operation.

29 **2.49 Objective Depth**

30 For each well, the shallower of (a) the total footage to be drilled by that well (as measured
31 in true vertical subsea depth), or (b) the penetration by the drill bit to the base of the deepest
32 target formation or interval in that well, as that depth or target formation or interval is stated

1 in the AFE for the well, or (c) a shallower depth than either (a) or (b) above, if agreed to
2 by all Parties.

3 **2.50 OCS**

4 The Outer Continental Shelf of the Gulf of Mexico.

5 **2.51 Offsite Host Facilities**

6 Production equipment that is (a) used to process or handle Hydrocarbon production and (b)
7 owned by one or more third parties or by one or more Participating Parties in an Execution
8 AFE (under which that production equipment is to be utilized for Hydrocarbon production),
9 whose respective ownership interests in the production equipment are not exactly the same
10 as their respective Participating Interest Shares in the Execution AFE.

11 **2.52 Operator**

12 The Party designated in Article 4.1 (*Designation of the Operator*), a successor Operator
13 selected under Article 4.5 (*Selection of Successor Operator*), and, if applicable, a substitute
14 Operator selected under Article 4.2 (*Substitute Operator*).

15 **2.53 Overinvested Party**

16 A Party entitled to receive its Participating Interest Share of an Underinvestment.

17 **2.54 Package Sale**

18 Any Transfer of Interest that includes any non-cash asset(s) (including, but not limited to
19 properties) situated outside of the Unit Area and not related to the activities or operations
20 conducted under this Agreement.

21 **2.55 Participating Interest Share, Participating Interest**

22 A Participating Party's percentage of participation in:

23 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an approved
24 activity or operation; or,

25 (b) if applicable, interests to be assigned to the Parties.

26 A Participating Party's percentage of participation is either the proportion, expressed as a
27 percentage, that the Participating Party's Working Interest bears to the total Working
28 Interests of all Participating Parties, or such different basis for Cost sharing or assignment
29 as the Participating Parties agree upon.

1 **2.56 Participating Party**

2 A Party who, having the contractual right to do so, participates in the sharing of:

3 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an approved
4 activity or operation; or,

5 (b) if applicable, the interests to be assigned to the Parties.

6 The term includes a Party who does not Vote to participate in a proposed activity or
7 operation, but is nonetheless bound to participate in that proposed activity or operation if
8 it is approved by Vote.

9 **2.57 Post-Production Project Team AFE**

10 An AFE submitted in association with the continuance of the Project Team under Article
11 12.8 (*Post-Production Project Team AFEs*).

12 **2.58 Producible Reservoir**

13 An underground accumulation of Hydrocarbons (a) separate from and not in Hydrocarbon
14 communication with another accumulation of Hydrocarbons, and (b) into which a
15 Producible Well has been drilled.

16 **2.59 Producible Well**

17 A well on the Unit Area that:

18 (a) produces Hydrocarbons;

19 (b) meets the “well producibility criteria” in Title 30 CFR 250.116 or any succeeding
20 order or regulation issued by an appropriate governmental authority; or

21 (c) the Participating Parties in the subject well unanimously agree is a Producible Well.

22 **2.60 Production System**

23 A system or combination of systems on or outside the Unit Area to develop, produce, store,
24 distribute, and initiate the transportation of Hydrocarbons. The term includes:

25 (a) an offshore surface structure, whether fixed, compliant, or floating;

26 (b) a subsea structure or template designed as a guide to or to provide structural rigidity
27 to one or more wells;

28 (c) any combination of the items mentioned in clauses (a) and (b);

(d) any other type of structure designed to develop and produce Hydrocarbons; and

(e) all associated components of the items mentioned above, including, but not limited to, a drilling rig, mooring lines, and anchor piles.

Production System excludes Facilities, mobile offshore drilling units, and the facilities referred to in Article 15.2 (*Facilities to Take in Kind*).

2.61 Production Testing

Operations for the controlled flow of Hydrocarbons to the surface for the purpose of measuring flow rates or flowing pressures, or gaining other subsurface data.

2.62 Project Team

A group of employees, contractors, and/or consultants of the Participating Parties or their respective Affiliates, who assists the Operator in carrying out the scope of work for the Selection Stage, Define Stage, and Execution Stage and the scope of work under Articles 12.8 (*Post-Production Project Team AFEs*) and 12.11 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*).

2.63 Receipt

Receipt of a notice or a response to a notice shall mean the following, as applicable, for:

(a) a written notice or response to a notice (excluding facsimiles and electronic mails), actual delivery of the notice to the Party's address; and

(b) a facsimile transmission; actual delivery to the Party's facsimile number, and requires:

(i) verbal or written confirmation of its successful delivery to such Party; or

(ii) electronic confirmation of delivery to the designated facsimile number.

(c) an electronic mail, actual delivery to the Party's e-mail address, and requires verbal or written confirmation of its successful delivery to such Party;

All notices or responses to notices shall be directed to the Party's representatives as set forth on Exhibit "A."

1 **2.64 Recompletion**

2 A Development Operation in a single well bore in which a Completion in one Producing
3 Reservoir is abandoned in order to attempt a Completion in a different Producing
4 Reservoir. To “Recomplete” means to conduct a Recompletion.

5 **2.65 Selection AFE**

6 The AFE for the Selection Stage.

7 **2.66 Selection Stage**

8 The stage of a Development Phase during which the Operator, with the assistance of the
9 Project Team, if applicable, will recommend to either:

10 (a) install a Development System on the Unit Area, or

11 (b) tie-back to, and utilize,

12 (i) a Development System resulting from a previous Development Phase or

13 (ii) a Development System and/or Facilities located outside the Unit Area

14 in order to produce Hydrocarbons.

15 **2.67 Sidetrack, Sidetracks, Sidetracked, Sidetracking**

16 An operation to directionally control or intentionally deviate a well to change the
17 bottomhole location to another bottomhole location not deeper than the stratigraphic
18 equivalent of the Objective Depth of an operation previously conducted in the well,
19 excluding the intentional deviation that is done to straighten the hole, drill around junk, or
20 overcome other mechanical difficulties. To “Sidetrack” means to conduct a Sidetracking.

21 **2.68 Standby Charges**

22 The charges incurred under the applicable drilling and/or service contract in order to
23 maintain a rig and/or any other support equipment (including, but not limited to, any
24 vessels or helicopters) on standby and available to perform an operation in the Unit Area,
25 while that operation is not able to be performed.

26 **2.69 Transfer of Interest**

27 Any sale, conveyance, assignment, transfer, farmout, exchange, or other disposition of all
28 or part of a Party’s undivided Working Interest and a Party’s rights and obligations under
29 this Agreement.

1 **2.70 Transfer Notice**

2 A written notice from the transferring Party to the non-transferring Parties informing the
3 non-transferring Parties that the transferring Party entered into a binding agreement for a
4 Transfer of Interest. A Transfer Notice shall contain:

- 5
6 (i) the transferee's name and address,
7 (ii) the nature or type of transfer,
8 (iii) the Working Interest being transferred, and
9 (iv) the effective date of such transfer,
10 (v) a copy of the executed binding agreement for the proposed Transfer of Interest,
11 including exhibits, but excluding any provisions not relevant to the proposed
12 Transfer of Interest,
13 (vi) the cash consideration, if applicable, and
14 (vii) identification of any non-cash consideration and its Equivalent Cash Value, as
15 determined in accordance with Article 24.2.1 (*Notice of Proposed Transfer of*
16 *Interest*).

17 **2.71 Underinvested Party**

18 A Party with an Underinvestment.

19 **2.72 Underinvestment**

20 A monetary obligation incurred under this Agreement to be settled under Article 16.9
21 (*Settlement of Underinvestments*).

22 **2.73 Vote**

23 As a noun, a response or deemed response by a Party to a proposal requiring approval under
24 Article 8.2.1 (*Approval by Vote*); as a verb, to respond to a proposal requiring approval
25 under Article 8.2.1 (*Approval by Vote*).

26 **2.74 Well Control and Containment Requirements**

27 The requirements imposed by the Bureau of Ocean Energy Management, Regulation and
28 Enforcement's Notice to Lessees and Operators of Federal Oil and Gas Leases, Outer
29 Continental Shelf No. 2010-N10 (*Statement of Compliance with Applicable Regulations*
30 *and Evaluation of Information Demonstrating Adequate Spill Response and Well*
31 *Containment Resources*) as from time to time amended, and those requirements imposed

1 by any similar laws, orders, rules, or regulations pertaining to well control and containment
2 in the OCS.

3
4 **2.75 Well Plan**

5 A detailed written description accompanying a proposal to drill an Exploratory Well,
6 Appraisal Well, or Development Well, or to conduct a Workover, Recompletion, well
7 repair, or subsequent operation at Objective Depth, which must include, at a minimum but
8 only to the extent applicable to the proposed operation:

- 9 (a) the surface and target bottomhole locations of the operation;
- 10 (b) the expected commencement date of the operation and the anticipated time necessary
11 to conclude the operation;
- 12 (c) the total vertical subsea depth to be drilled, along with the specified Objective Depth
13 (and the target zones to be penetrated);
- 14 (d) the proposed drilling and/or completion plan, inclusive of casing and/or liner sizes,
15 anticipated days v. depth graph, estimated depth settings, pore pressure frac gradient
16 curve, estimated mud weights, temperature profile, listing of wells used for pore
17 pressure prediction and well trajectory and directional drilling details;
- 18 (e) details of all coring, logging, and other evaluation operations to be conducted; and
- 19 (f) information about the type of drilling rig to be used, including day rates, water depth
20 rating, and any other rig related capabilities relevant to the proposed operation(s).

21 **2.76 Willful Misconduct**

22 With respect to a Party, shall mean any act or failure to act by any person or entity which
23 constitutes willful misconduct as defined by applicable law.

24 **2.77 Working Interest**

25 The record title leasehold interest or, where applicable, the operating rights of each Party
26 in and to each Lease (expressed as the percentage provided in Exhibit "A"). If a Party's
27 record title interest is different from its operating rights, the Working Interest of each Party
28 is the interest provided in Exhibit "A."

2.78 Workover

A Development Operation conducted in an existing well after the well has been completed in one or more Producing Reservoirs to restore, maintain, or improve production from one or more of those Producing Reservoirs.

ARTICLE 3 – EXHIBITS**3.1 Exhibits**

All references in this Agreement to “Exhibits” without further qualification mean the Exhibits listed below and attached to this Agreement. Each Exhibit is made a part of this Agreement and is incorporated into this Agreement by this reference. If any provision of an Exhibit conflicts with any provision of the body of this Agreement, the provision of the body of this Agreement shall prevail, with the exception of Exhibits “C,” “D,” and “G” each provision of which shall prevail over any provision of the body of this Agreement, except as provided in Article 6.2.4 (*Long Lead Well Operation AFEs*). If any provision of Exhibit “C” conflicts with any provision of Exhibit “G,” the provision of Exhibit “G” shall prevail. If any provision of Exhibit “C” conflicts with any provision of Exhibit “D,” the provision of Exhibit “C” shall prevail.

Exhibit “A”	Unit Area, Description of the Lease(s), Working Interests of the Parties, Operator and Company Representatives, and Notification Information
Exhibit “B”	Insurance Provisions
Exhibit “C”	Accounting Procedure
Exhibit “D”	Gas Balancing Agreement
Exhibit “E”	Certification of Non-Segregated Facilities
Exhibit “F”	Security Interest Provisions
Exhibit “G”	Project Team and Technology Sharing
Exhibit “H”	Dispute Resolution Procedure
Exhibit “I”	Well Data Trade and Confidentiality Agreement
Exhibit “J”	Health, Safety and Environment
Exhibit “K”	Memorandum of Unit Operating Agreement

ARTICLE 4 – SELECTION OF OPERATOR

4.1 Designation of the Operator

Fieldwood Energy, LLC is designated as the Operator of the Unit Area. The Parties shall promptly execute and file all documents required by the DOI in connection with the designation of Fieldwood Energy, LLC as Operator or with the designation of any other Party as a substitute or successor Operator. Unless agreed otherwise by all the Parties, the Operator shall be classified as the designated applicant for oil spill financial responsibility purposes, and each Non-Operating Party shall promptly execute the appropriate documentation reflecting that classification and promptly provide that documentation to the Operator for filing with the DOI.

4.2 Substitute Operator

4.2.1 Substitute Operator if Operator is a Non-Participating Party

Except as otherwise provided in Article 4.2.3 (*Circumstances Under Which the Operator Must Conduct a Non-Consent Operation*), if the Operator is a Non-Participating Party in a Non-Consent Operation, the Participating Parties may approve by Vote the designation of any Participating Party as the substitute Operator.

The substitute Operator shall serve as the Operator only:

- (a) for the Non-Consent Operation (if the Non-Consent Operation is the drilling of a well, through the release of the drilling rig for that well),
- (b) of the Lease affected by the Non-Consent Operation, and
- (c) with the same authority, rights, obligations, and duties as the Operator, subject to the limitations in (a) and (b).

If a Non-Operating Party is the only Participating Party in a Non-Consent Operation, then the Non-Operating Party shall be designated as the substitute Operator for that Non-Consent Operation, with no Vote required, unless the Non-Operating Party elects not to accept the designation. A Non-Operating Party, who is a Participating Party, shall not be designated as a substitute Operator against its will. If a substitute Operator is not designated under the foregoing procedures, the Operator shall, upon the unanimous agreement of the Participating Parties and with the consent of the Operator, conduct the Non-

Consent Operation on behalf of the Participating Parties and at the Participating Parties' sole Cost and risk under Article 16 (*Non-Consent Operations*).

If the Participating Parties (i) do not approve by Vote a substitute Operator to conduct the Non-Consent Operation; or (ii) do not unanimously agree that the Operator shall conduct the Non-Consent Operation on behalf of the Participating Parties; or (iii) unanimously agree that the Operator shall conduct the Non-Consent Operation on behalf of the Participating Parties, however, the Operator does not consent; then the proposal of the Non-Consent Operation shall be deemed withdrawn, with the effect as if the proposal for the Non-Consent Operation had never been proposed and approved, except as otherwise provided in Article 4.2.3 (*Circumstances Under Which the Operator Must Conduct a Non-Consent Operation*).

4.2.2 Substitute Operator if Operator Fails to Commence Operations

If the Operator fails to timely commence an Exploratory Operation in accordance with Article 10.1.4 (*Timely Operations*), an Appraisal Operation in accordance with Article 11.1.4 (*Timely Operations*) or a Development Operation in accordance with Article 13.1.3 (*Timely Operations*), the non-operating Participating Parties may select a substitute Operator in the same manner as the selection of a successor Operator under Article 4.5 (*Selection of Successor Operator*), and the substitute Operator shall serve as the Operator only:

- (a) for such operation and through the release of the rig if such operation is the drilling of a well,
- (b) of the Lease on which the operation is conducted, and
- (c) with the same authority, rights, obligations, and duties as the Operator, subject to the limitations in (a) and (b).

4.2.3 Circumstances Under Which the Operator Must Conduct a Non-Consent Operation

If:

- (a) a rig is on location and the Operator becomes a Non-Participating Party:

- (i) in a supplemental AFE pursuant to the terms of Article 6.2.2 (*Supplemental AFEs*), or
- (ii) after reaching Objective Depth as provided in Article 10.2 (*Exploratory Operations at Objective Depth*), Article 11.2 (*Appraisal Operations at Objective Depth*), or Article 13.2 (*Development Operations at Objective Depth*), or
- (b) the Operator becomes a Non-Participating Party in an operation; however, the rig and/or other contracts for equipment and Facilities to be utilized on the Non-Consent Operation are non-assignable,
- (c) the Operator becomes a Non-Participating Party in an operation to be conducted on or from a Development System operated by the Operator,

the Operator, as a Non-Participating Party, shall conduct the Non-Consent Operation on behalf of the Participating Parties and at the Participating Parties' sole Cost and risk under Article 16 (*Non-Consent Operations*), subject to the Participating Parties' control, supervision and direction, and the other provisions of this Agreement, including, but not limited to, Articles 4.2.4 (*Operator's Conduct of a Non-Consent Operation in Which it is a Non-Participating Party*) and 5.2 (*Workmanlike Conduct*).

Notwithstanding the above, with respect to Operator's contracts for a drilling rig, equipment and other Facilities which could be utilized in a Non-Consent Operation by a substitute Operator, the Operator may, at its discretion, make reasonable attempts to cause such non-assignable rig and/or other contracts to be assignable to any substitute Operator under this Agreement as to such operation.

4.2.4 Operator's Conduct of a Non-Consent Operation in Which it is a Non-Participating Party

When, under Article 4.2.1 (*Substitute Operator if Operator is a Non-Participating Party*) or Article 4.2.3 (*Circumstances Under Which the Operator Must Conduct a Non-Consent Operation*), the Operator conducts a Non-Consent Operation in which it is a Non-Participating Party:

- (a) The Operator shall follow the practices and standards in Article 5 (*Rights and Duties of Operator*). The Operator shall not be required to proceed with the Non-Consent Operation until the Participating Parties have

1 advanced the Costs of the Non-Consent Operation to the Operator. The
2 Operator shall never be obligated to expend any of its own funds for the
3 Non-Consent Operation.

4 (b) The limitations contained in Article 5.2 (*Workmanlike Conduct*), and the
5 Participating Parties' indemnity to a Non-Participating Party as set forth
6 in Article 22.6 (*Indemnification for Non-Consent Operations*) shall be
7 applicable and extend to the Operator while acting on behalf of the
8 Participating Parties.

9 **4.2.5 Appointment of a Substitute Operator**

10 After expiration of all applicable response periods for the Non-Consent
11 Operation and selection of a substitute Operator, each Party shall promptly
12 provide the substitute Operator with the appropriate DOI designation of operator
13 forms and certification of oil spill financial responsibility forms. The Operator
14 and the substitute Operator shall coordinate the change of operatorship to avoid
15 interfering with ongoing activities and operations, if any, including but not
16 limited to, lease maintenance activities and operations.

17 **4.2.6 Redesignation of Operator**

18 Within fifteen (15) days after conclusion of the Non-Consent Operation, all
19 Parties shall execute and provide the Operator with the appropriate DOI
20 designation of operator forms and certification of oil spill financial
21 responsibility forms to return operatorship to the Operator, thereby superseding
22 the Parties' designation of the substitute Operator under Article 4.2.5
23 (*Appointment of a Substitute Operator*).

24 **4.3 Resignation of Operator**

25 Subject to Article 4.5 (*Selection of Successor Operator*), the Operator may resign at any
26 time by giving written notice to the Parties, except that the Operator may not resign during
27 a Force Majeure or an emergency that poses a threat to life, safety, property, or the
28 environment. If the Operator ceases to own a Working Interest, the Operator automatically
29 shall be deemed to have resigned as the Operator without any action by the Non-Operating
30 Parties.

31 **4.4 Removal of Operator**

32 The Operator may be removed under the following circumstances:

1 **4.4.1 Removal Upon Assignment**

2 If the Operator assigns part of its Working Interest (excluding an interest
3 assigned to an Affiliate) and the assignment reduces the Operator's Working
4 Interest to less than the Working Interest of a Non-Operating Party, whether
5 accomplished by one or more assignments, then the removal of the Operator
6 requires approval by Vote.

7 **4.4.2 Removal for Cause by Vote**

8 The Operator may be removed for cause if approved by Vote of the Parties after
9 excluding the Vote of the Operator and the Vote of the Operator's Affiliates (if
10 any) under the following circumstances:

11 (a) the Operator is found liable by a final judicial decision or a final decision
12 under binding arbitration for an act of Gross Negligence or Willful
13 Misconduct regarding the Unit Area;

14 (b) the Operator commits a substantial breach of a material provision of this
15 Agreement and fails to cure the breach within thirty (30) days after Receipt
16 of written notice of the breach from a Non-Operating Party. If the breach
17 specified in the notice reasonably cannot be corrected within the thirty (30)
18 day period, but the Operator within said period begins action to correct the
19 breach and thereafter diligently carries the corrective action to completion,
20 the Operator shall not be removed. The Operator shall not be removed
21 under this Article 4.4.2 if the Operator is able to prove the non-existence
22 of the alleged breach within thirty (30) days after Receipt of written notice
23 of the alleged breach;

24 (c) the Operator becomes insolvent or unable to pay its debts as they mature,
25 makes an assignment for the benefit of its creditors, commits an act of
26 bankruptcy, or seeks relief under laws providing for the relief of debtors;

27 (d) a receiver is appointed for the Operator or for substantially all of its
28 property or affairs;

29 (e) the Operator fails to timely commence the fabrication or acquisition of the
30 Development System in accordance with Article 12.7.9 (*Timely*
31 *Operations for Development Systems*); or

(f) the Operator fails or is unable to meet the standards of operation contained in Articles 5.2 (*Workmanlike Conduct*), 5.3 (*Operations*), 5.4 (*Liens and Encumbrances*) and/or 5.6 (*Reports to Government Agencies*).

4.4.3 Timing of Vote to Remove Operator

A Vote to remove the Operator for cause as provided in this Article 4.4 shall be taken within ninety (90) days after the Non-Operating Party's actual knowledge of the cause.

4.5 Selection of Successor Operator

Upon the resignation or removal of the Operator, a successor Operator shall be approved by Vote, subject to this limitation on the Voting right of Operator: if the resigned or removed Operator is not entitled to Vote, fails to Vote, or Votes only to succeed itself, then the successor Operator shall be approved by Vote after excluding the Vote of the resigned or removed Operator. If the Operator assigns all or a part of its Working Interest, then under Article 4.3 (*Resignation of Operator*) or Article 4.4.1 (*Removal Upon Assignment*) the Party who acquired all or a part of the former Operator's Working Interest shall not be excluded from Voting for a successor Operator. If there are only two Parties to this Agreement when the Operator resigns or is removed, then the Non-Operating Party automatically has the right, but not the obligation, to become the Operator. If no Party is willing to become the Operator, this Agreement shall terminate under Article 26.1 (*Term*).

4.6 Effective Date of Resignation or Removal

The resignation or removal of the Operator shall become effective as of 7:00 a.m. on the first day of the month following a period of ninety (90) days from, and inclusive of, the day of the Parties' Receipt of the applicable notice, unless a longer period is required for the Parties to obtain approval of the designation of the successor Operator, and certification for oil spill financial responsibility purposes by the DOI, in which case the resignation or removal of the Operator shall become effective at 7:00 a.m. on the day immediately following DOI approval. The resignation or removal of the outgoing Operator shall not prejudice any rights, obligations, or liabilities of the outgoing Operator which accrued during its tenure. The outgoing Operator and the successor Operator may charge the Joint Account for the reasonable Costs incurred in connection with the change of operatorship, except when the change of operatorship results from a merger, consolidation, reorganization, or sale or transfer to an Affiliate of the Operator.

4.7 Delivery of Property

On the effective date of resignation or removal of the Operator, the outgoing Operator shall deliver to the successor Operator custodianship of the Joint Account and possession of all items purchased for the Joint Account under this Agreement; all Hydrocarbons that are not the separate property of a Party; all equipment, materials, and appurtenances purchased for the Joint Account under this Agreement; and all books, records, and inventories relating to the Joint Account (other than those books, records, and inventories maintained by the outgoing Operator as the owner of a Working Interest). The outgoing Operator shall further use its reasonable efforts to transfer to the successor Operator, as of the effective date of the resignation or removal, its rights as Operator under all contracts exclusively relating to the activities or operations conducted under this Agreement, and the successor Operator shall assume all obligations of the Operator that are assignable under the contracts. The Parties may audit the Joint Account and conduct an inventory of all property and all Hydrocarbons that are not the separate property of a Party, and the inventory shall be used in the return of, and the accounting by the outgoing Operator of, the property and the Hydrocarbons that are not the separate property of a Party. The inventory and audit shall be conducted under Exhibit "C," and all Costs incurred in connection with such audit and inventory shall be charged to the Joint Account.

ARTICLE 5 – RIGHTS AND DUTIES OF OPERATOR

5.1 Exclusive Right to Operate

Except as otherwise provided, the Operator has the exclusive right and duty to conduct (or cause to be conducted) all activities or operations under this Agreement. In performing services under this Agreement for the Non-Operating Parties, the Operator is an independent contractor, not subject to the control or direction of Non-Operating Parties, except as provided in Article 4.2.3 (*Circumstances Under Which the Operator Must Conduct a Non-Consent Operation*), Article 8.2 (*Voting and Election Procedures*) or Article 8.5 (*Approval by Unanimous Agreement*). The Operator is not the agent or fiduciary of the Non-Operating Parties. With the exception of any Feasibility Team or Project Team formed under this Agreement, the Operator shall select and determine the number of employees, Affiliates, contractors, and/or consultants used in conducting activities or operations under this Agreement and the hours of labor and the compensation for those employees, Affiliates, contractors, and/or consultants. All of those employees, Affiliates, contractors, and/or consultants shall be the employees, Affiliates, contractors, and/or consultants of the Operator. The Operator shall contract for and employ any drilling rigs, tools, machinery, equipment, materials, supplies, and personnel reasonably necessary

1 for the Operator to conduct the activities or operations provided for in this Agreement;
2 however, if a substitute Operator is designated to drill a well, the substitute Operator may
3 utilize a rig, which it owns or has under contract, for the drilling of that well.

4 **5.2 Workmanlike Conduct**

5 The Operator shall timely commence and conduct all activities or operations in a good and
6 workmanlike manner, as would a prudent operator under the same or similar
7 circumstances. All Costs, damages, losses or liabilities arising out of the activities and
8 operations conducted pursuant to this Agreement shall be shared by the Participating
9 Parties as provided in Article 22.5 (*Liability for Damages*) of this Agreement. The
10 Operator shall never be required to conduct an activity or operation under this Agreement
11 that it, as a reasonable and prudent operator in similar circumstances, believes would be
12 unsafe or would endanger persons, property, or the environment.

13 **5.3 Operations**

14 The Operator may have operations conducted by qualified and responsible independent
15 contractors who are not an Affiliate of the Operator and are employed under competitive
16 contracts. A competitive contract is a contract (a) that was entered into within five (5)
17 years before the commencement of the operations and (b) that contains terms, rates, and
18 provisions that, when the contract was entered into, did not exceed those generally
19 prevailing on the OCS for operations involving rigs of an equivalent type, operating in
20 similar environments and water depths, equipped to the Operator's standard conditions, and
21 capable of conducting required operations within the schedule in the well AFE. The
22 Operator may employ its own or its Affiliate's equipment, personnel, rig, Workover rig,
23 and snubbing unit in the conduct of those operations, either under Exhibit "C" or under a
24 written agreement among the Participating Parties. If the Operator's or its Affiliate's
25 equipment, personnel, rig, Workover rig, or snubbing unit is employed in conducting
26 operations under this Agreement, the terms, conditions, and rates for that employment shall
27 be consistent with those currently prevailing in competitive contracts for the deepwater
28 OCS.

29 **5.4 Liens and Encumbrances**

30 The Operator shall endeavor to keep the Leases, Production Systems, Facilities, and other
31 equipment purchased for the Joint Account under this Agreement and the Hydrocarbons
32 free from liens and encumbrances (except those provided in Exhibit "F") that might arise
33 by reason of the activities or operations conducted under this Agreement. If a lien is placed

1 on the Leases, Production Systems, Facilities, other equipment, or any Hydrocarbons, the
2 Operator shall make reasonable efforts to remove the lien.

3 **5.5 Records**

4 The Operator shall keep accurate books, accounts, and records of activities or operations
5 under this Agreement in compliance with the Accounting Procedure in Exhibit "C." Unless
6 otherwise provided in this Agreement, all records of the Joint Account shall be available
7 to a Non-Operating Party following reasonable notice during the Operator's normal office
8 hours under Exhibit "C." The Operator shall use good-faith efforts to ensure the
9 settlements, billings, and reports rendered to each Party under this Agreement are complete
10 and accurate. The Operator shall notify the other Parties promptly upon the discovery of
11 any error or omission pertaining to the settlements, billings, and reports rendered to each
12 Party. This provision does not affect a Party's audit rights under this Agreement. This
13 provision shall also apply to each Non-Operating Party's books, accounts, and records kept
14 supporting its charges to a Project Team.

15 **5.6 Reports to Government Agencies**

16 The Operator shall make timely reports to all governmental authorities to whom it has a
17 duty to make reports and shall furnish copies of the reports to the Participating Parties. As
18 soon as reasonably practicable, the Operator shall provide each Non-Operating Party with
19 a copy of each notice, order, and directive received from the DOI. As soon as reasonably
20 practicable, each Party shall give written notice to the other Parties before each meeting
21 with government authorities of which it has notice and that affect the Unit Area.

22 **5.7 Information to Participating Parties**

23 The Operator shall, as soon as reasonably practicable and to the extent that the information
24 has then been obtained or received by the Operator, furnish each Participating Party the
25 following information about well operations:

- 26 (a) a complete copy of each approved permit to drill and all amendments thereto
27 excluding any proprietary information. For purposes of this Article 5.7(a),
28 "Proprietary information" shall mean information that is owned or controlled by a
29 Party that is not in the public domain and has been developed, created or licenses for
30 the specific and private use by a Party;
- 31 (b) drilling and Workover reports, which shall include, but not be limited to, the current
32 depth, the corresponding lithological information, data on drilling fluid
33 characteristics, information about drilling difficulties or delays (if any), mud checks,

1 mud logs, and Hydrocarbon information, casing and cementation tallies, BOP tests,
2 and estimated cumulative Costs, to be sent by facsimile or electronic transmission
3 within twelve (12) hours (exclusive of Saturdays, Sundays, and federal holidays) of
4 well operations conducted in the preceding twenty-four (24) hour period; provided,
5 however, the information and data set forth in this Article 5.7(b) shall be provided in
6 “real time” if it is available to the Operator in “real time” and a Participating Party
7 has contractual rights to utilize the “real time” system that the Operator is utilizing
8 and has agreed to pay any incremental expenses associated with its accessing that
9 information and data from that “real time system”;

10 (c) a complete report of all core data and analyses;

11 (d) copies of logs and surveys as run, including all digitally recorded data;

12 (e) copies of well test results, bottomhole pressure surveys, Hydrocarbon analyses, and
13 other similar information, including PVT analyses;

14 (f) copies of relevant well specific written correspondence, plans, permits, and reports
15 made to regulatory agencies, including, but not limited to, relevant well specific
16 containment plan and screening tools used for permitting the well, filings, casing and
17 cementing design certifications from a professional engineer, lease suspensions of
18 operations and/or suspensions of production and plans required under current and
19 future applicable Notices to Lessees (NTL) and the Drilling Safety and Workplace
20 Safety Rule announced by the DOI on September 30, 2010, and any rules derived
21 therefrom;

22 (g) forty-eight (48) hours advance notice of logging, coring, or testing operations (or, if
23 conditions do not permit that much advance notice, as much advance notice as is
24 reasonably possible);

25 (h) upon written request, and if sufficient quantities are available, samples of cutting and
26 sidewall cores, marked as to depth, to be packaged and shipped at the expense of the
27 requesting Party;

28 (i) copies of drilling prognoses;

29 (j) if conventional cores are taken, a Participating Party may be allowed access to the
30 rig to inspect and evaluate said cores;

- (k) samples of Hydrocarbons, if sufficient quantities are available, after performing routine tests;
- (l) well specific risk assessment (as per SEMS) with planned mitigations;
- (m) detailed drilling program which indicates a step by step process on how the well is going to be drilled, at a level equivalent to what the rig personnel are utilizing; and
- (n) real time drilling data, including but not limited to LWD, drilling and mudlog data.

Upon written request, the Operator shall use reasonable efforts to furnish to a requesting Participating Party any additional available information (including a complete slabbled section of all recovered cores, if requested and available), acquired by the Operator for the Participating Parties, not otherwise furnished under this Article (not including any derivative information independently developed at Operator's sole cost and risk). The Costs of gathering and furnishing the additional available information shall be charged to the Participating Party that requested it.

5.8 Completed Well Information

Operator shall, as soon as reasonably practicable, furnish to each Participating Party the following information pertaining to each Completed well; provided, however, the following information shall be provided in "real time" if it is available to the Operator in "real time" and a Participating Party has contractual rights to utilize the "real time" system that the Operator is utilizing and has agreed to pay any incremental expenses associated with its accessing that information from that "real time system":

- (a) monthly report of production and injection;
- (b) copies of routine reports made to regulatory agencies;
- (c) report on the status of wells not producing and not abandoned;
- (d) report on Hydrocarbons produced during Production Testing;
- (e) bottomhole pressure data and surface pressure data; and
- (f) composite of all logs run (for example, TDT, Carbon-Oxygen, Spinner Surveys, and Casing Collar).

1 **5.9 Information to Non-Participating Parties**

2 The Operator shall furnish to each Non-Participating Party:

- 3 (a) as soon as reasonably practicable, copies of all non-confidential reports made to
4 regulatory agencies, and
- 5 (b) if applicable, after Complete Recoupment, the information specified in Articles 5.7
6 (*Information to Participating Parties*) and 5.8 (*Completed Well Information*).

7 **5.10 Health, Safety, and Environment:**

8 With the goal of achieving safe and reliable activities and operations in compliance with
9 all applicable laws and regulations, including avoiding significant and unintended impact
10 on (i) the health or safety of people, (ii) property, or (iii) the environment, the Operator
11 shall, with the support and cooperation of the Non-Operators, while it conducts activities
12 or operations under this Agreement:

- 13 (a) design and manage activities or operations to standards intended to achieve sustained
14 reliability and promote the effective management of HSE risks;
- 15 (b) apply structured HSE management systems and procedures consistent with those
16 generally applied in the petroleum industry to effectively manage HSE risks and
17 pursue sustained reliability of operations under this Agreement; and
- 18 (c) comply with all laws, orders, rules and regulations of any federal, state, or local
19 government authority having jurisdiction over the Unit Area.

20 In fulfilling its duties and obligations hereunder, the Operator shall act in accordance with
21 the provisions of Exhibit "J."

22 **ARTICLE 6 – EXPENDITURES AND ANNUAL OPERATING PLAN**

23 **6.1 Basis of Charges to the Parties**

24 Except as otherwise provided in this Agreement, the Operator shall pay all Costs of all
25 activities and operations under this Agreement, and each Participating Party shall
26 reimburse the Operator in proportion to its Participating Interest Share for the Costs of
27 these activities and operations. All charges, credits, and accounting for expenditures shall
28 be made under Exhibit "C." Funds received by the Operator under this Agreement may be
29 commingled with the Operator's own funds.

1 **6.2 AFE**

2 The Operator shall not undertake an activity or operation whose Costs are five hundred
3 thousand dollars (\$500,000) or more, unless an AFE has been included in a proposal for an
4 activity or operation and the proposal has been approved by Vote, Election, or unanimous
5 agreement, whichever is applicable, or the Operator is exercising one of its discretionary
6 powers under this Agreement. An approved proposal grants the Operator authority to
7 commit or expend funds on the approved proposal for the account of the Participating
8 Parties. For an activity or operation whose Costs are in excess of two hundred and fifty
9 dollars (\$250,000), but less than five hundred thousand dollars (\$500,000), the Operator
10 shall furnish the Participating Parties with an AFE for information purposes only.
11 Notwithstanding the foregoing, in the event of an emergency, or if in the sole discretion of
12 the Operator a perceived emergency exists that poses an imminent threat to life, safety,
13 property, or the environment, the Operator may immediately make those expenditures for
14 the Joint Account as, in its opinion as a reasonable and prudent operator, are necessary to
15 deal with the emergency, but only to the extent necessary to stabilize the situation and
16 alleviate the imminent threat. The Operator shall report to the Participating Parties, as
17 promptly as possible, the nature of the emergency, the action taken, and the Costs incurred.

18 Notwithstanding anything in this Article 6.2 to the contrary, if less than all the Participating
19 Parties in an operation elect to approve the supplemental AFE for such operation and if
20 there is not an agreement among the Parties desiring to continue such operation to each
21 bear their revised proportionate share of one hundred percent (100%) of the liability and
22 Costs of the continued operation, the Operator shall, unless such Parties otherwise agreed
23 to allocate such liability and Costs, terminate the operation. If the Operator terminates the
24 operation, each of the original Participating Parties shall be obligated to bear and pay their
25 proportionate share of all the liabilities and Costs incurred by the Operator up to and
26 including the termination of the operation, including, if applicable, all Costs associated
27 with any plugging and abandonment of a well, whether or not such Costs exceed the
28 currently approved AFE by greater than the permitted over-expenditure amount.
29 Additionally, notwithstanding a Party's Election pursuant to Article 6.2.2 (*Supplemental*
30 *AFEs for Cost Overruns for Wells*) to become a Non-Participating Party once the permitted
31 over-expenditure has been exceeded, if at the conclusion of such drilling operation the well
32 is plugged and abandoned, each Participating Party in the original drilling operation shall
33 continue to be obligated to pay for its respective share of all Costs of plugging and
34 abandoning the well (except for any increased plugging and abandonment Costs associated
35 with any subsequent well operations conducted as a Non-Consent Operation).

1 **6.2.1 AFE Overrun Notice**

2 For informational purposes only, the Operator shall provide an AFE overrun
3 notice to all the Participating Parties if it appears (based upon Operator's
4 reasonable estimate) that the actual total Costs associated with an original AFE
5 will exceed the estimated total expenditures in that original AFE by more than
6 ten percent (10%), but will not require the submission of a supplemental AFE
7 under Article 6.2.2 (*Supplemental AFEs*).

8 **6.2.2 Supplemental AFEs**

9 Except as provided in Article 6.2.3 (*Further Operations During a Force*
10 *Majeure*), if it appears (based upon the Operator's reasonable estimate) that the
11 actual Costs associated with an original AFE or the latest approved supplemental
12 AFE will exceed the relevant permitted over-expenditure set forth below, the
13 Operator shall promptly submit a supplemental AFE to the Participating Parties.
14 A supplemental AFE shall include the dollar amount of the permitted over-
15 expenditure from the previously approved AFE as part of the dollar amount of
16 that supplemental AFE. After Receipt of a supplemental AFE each Participating
17 Party has the right to make an Election, in accordance with Article 8 (*Approvals*
18 *and Notices*), as to its further participation in the approved activity or operation.
19 If a proposed supplemental AFE is approved by Election, the Operator shall
20 continue to conduct the approved activity or operation associated with the
21 supplemental AFE at the sole Cost and risk of the Participating Parties in the
22 supplemental AFE. Any Participating Party making an Election not to
23 participate in an approved supplemental AFE becomes a Non-Participating Party
24 in the activity or operation associated with the original AFE once the actual
25 Costs expended on the activity or operation exceed the permitted over-
26 expenditure amount of the last AFE in which the Non-Participating Party
27 Elected to participate, without regard to whether all the activities or operations
28 in the original AFE have been conducted at the time of its Election not to
29 participate. A Non-Participating Party in a supplemental AFE is subject to the
30 Hydrocarbon Recoupment or Underinvestment provisions of Article 16
31 (*Non-Consent Operations*) for the:

32 i. Costs expended; and

33 ii. depths drilled in such well bore, if applicable,

1 after exceeding the permitted over-expenditure amount of the latest approved
2 AFE (i.e., the original AFE or the latest supplemental AFE, if any, whichever is
3 the latest), for that operation in which the Non-Participating Party elected to
4 participate, unless the acreage forfeiture provisions of Article 16.4 (*Non-Consent*
5 *Operations to Maintain Unit Area*) is applicable and Article 16.4.3 (*Limitations*
6 *on Acreage Forfeiture*) is not applicable.

7 If a supplemental AFE is not approved by an Election or Vote, the Operator shall
8 conclude the activity or operation as soon as practical, and each Participating
9 Party will be responsible for its Participating Interest Share of the Costs of the
10 activity or operation, including Costs in excess of the permitted over-
11 expenditure amount.

12 **6.2.2.1 Permitted Over-expenditures on Well Operations**

13 The permitted over-expenditure for an Exploratory Operation, an
14 Appraisal Operation, or a Development Operation is an amount equal
15 to ten percent (10%) of the estimated Costs of the latest approved AFE
16 for that operation, including the original AFE or a supplemental AFEs
17 or ten million dollars (\$10,000,000), whichever is less.

18 **6.2.2.2 Permitted Over-expenditures on the Feasibility AFE, a Post-**
19 **Production Project Team AFE, or an Enhanced Recovery Project**
20 **Team AFE**

21 The permitted over-expenditure for the Feasibility AFE, a Post-
22 Production Project Team AFE, or an Enhanced Recovery Project
23 Team AFE is an amount equal to ten percent (10%) of the estimated
24 total Costs of the latest approved AFE, including the original AFE or
25 a supplemental AFEs or five million dollars (\$5,000,000), whichever
26 is less.

27 **6.2.2.3 Permitted Over-expenditures on a Selection AFE or Define AFE**

28 The permitted over-expenditure for the Selection AFE or the Define
29 AFE is an amount equal to ten percent (10%) of the estimated total
30 Costs of the latest approved AFE, including the original AFE or a
31 supplemental AFEs or eight dollars (\$8,000,000), whichever is less.

1 **6.2.2.4 Permitted Over-expenditures on an Execution AFE**

2 The permitted over-expenditure for the Execution AFE is an amount
3 equal to ten percent (10%) of the estimated total Costs of the latest
4 approved AFE, including the original AFE or a supplemental AFEs
5 or twenty million dollars (\$20,000,000), whichever is less.

6 **6.2.2.5 Permitted Over-expenditures on All Other AFEs**

7 The permitted over-expenditure for all other AFEs is an amount equal
8 to ten percent (10%) of the estimated total Costs in the latest approved
9 AFE, including the original AFE or a supplemental AFEs or three
10 million dollars (\$3,000,000), whichever is less.

11 **6.2.3 Further Operations During a Force Majeure**

12 No Party is permitted to make an Election not to participate in further activities
13 or operations under Article 6.2.2 (*Supplemental AFEs*) during a Force Majeure
14 or during an emergency that poses a threat to life, safety, property, or the
15 environment, but may make an Election not to participate in further activities or
16 operations that are to be conducted after the termination of the Force Majeure or
17 emergency. Notwithstanding any contrary provision of this Agreement, if Costs
18 arising as a result of Force Majeure or emergency cause the amount of an
19 original AFE and its approved supplemental AFEs to exceed their permitted
20 over-expenditure in Article 6.2.2 (*Supplemental AFEs*), no supplemental AFE
21 will be required; however, once stabilization takes place and Force Majeure or
22 emergency expenditures are no longer being incurred, the Operator shall submit
23 to the Participating Parties a supplemental AFE for the activities or operations
24 that are to be conducted after termination of the Force Majeure or emergency in
25 order for them to make an Election under Article 6.2.2 (*Supplemental AFEs*) as
26 to their participation in those activities or operations. Notwithstanding any
27 contrary provision of this Agreement, the Participating Parties in the operation,
28 which is affected by a Force Majeure event, shall be responsible for all Standby
29 Charges, if any, accruing from when such event affects the operation until the
30 earlier of the following:

31 (a) the Force Majeure event is remedied and the Operator is able to resume the
32 operation; or

33 (b) the Participating Parties unanimously agree to terminate the operation.

1 Notwithstanding the foregoing, in the event the Operator has not received the
2 necessary governmental approval(s) and/or permit(s) to commence an approved
3 operation within fifteen (15) days after the last applicable Election or Vote
4 approving the operation, then the Operator, at its sole discretion, may release the
5 rig from location. In any event, however, and unless otherwise mutually agreed
6 by the then Participating Parties, the Operator shall not keep the rig on location
7 for more than thirty (30) days from the last applicable Election or Vote
8 approving the operation while awaiting the necessary governmental approval(s)
9 and/or permit(s). In the event the Operator releases the rig as provided for above,
10 the Costs of plugging and abandoning (whether temporary or permanent) the
11 well in its then current condition shall be borne by the Participating Parties in
12 proportion to their Participating Interest in the last well operation.

13 **6.2.4 Long Lead Well Operation AFEs**

14 In addition to the Operator's right under Article 12.6 (*Long Lead Development*
15 *System AFEs*) to submit Long Lead Development System AFEs for long lead-
16 time items prior to the submission of the Execution AFE, the Operator may
17 submit an AFE to the Parties, which will allow the Operator to make advance
18 commitments for or purchases of equipment, materials or services, which are
19 commercially reasonable and necessary to facilitate the early and orderly
20 commencement of any kind of well or well operation ("Long Lead Well
21 Operation Items") (a "Long Lead Well Operation AFE").

22 **6.2.4.1 Proposal and Approval of a Long Lead Well Operation AFE**

23 A Long Lead Well Operation AFE proposal shall include a
24 description of the equipment, materials, or services to be purchased,
25 an estimate of any cancellation fees, and the description and estimated
26 timing for the well or well operation that will utilize such long lead
27 equipment, materials, or services. Each Long Lead Well Operation
28 AFE proposal requires approval by Vote of the Parties. If the Long
29 Lead Well Operation AFE is not approved by Vote, then the Long
30 Lead Well Operation AFE proposal shall be deemed withdrawn.

31 Approval of a Long Lead Well Operation AFE shall not be deemed
32 an affirmative Vote or Election to participate in any subsequently
33 proposed wells or well operations for which such long lead
34 equipment, material or services are procured.

1
2 **6.2.4.2 Non-Participating Parties in the Long Lead Well Operation AFE**

3 A Party who Votes not to participate in an approved Long Lead Well
4 Operation AFE shall become a Non-Participating Party as to the costs
5 of the Long Lead Well Operation AFE, and is subject to Article 16.5.3
6 (*Non-Consent Proprietary Geophysical Operations, Feasibility*
7 *AFEs, Selection AFEs, Define AFEs, Long Lead Development System*
8 *AFEs, Post-Production Project Team AFEs, Enhanced Recovery*
9 *Project Team AFE, or Long Lead Well Operation AFEs*). Each Non-
10 Participating Party in a Long Lead Well Operation AFE retains the
11 right to participate in a subsequently proposed well or well operation
12 described in the Long Lead Well Operation AFE proposal, subject to
13 its reimbursement to the Participating Parties in the Long Lead Well
14 Operation AFE of an amount equal to that set forth in Article 16.5.3
15 (*Non-Consent Proprietary Geophysical Operations, Feasibility*
16 *AFEs, Selection AFEs, Define AFEs, Long Lead Development System*
17 *AFEs, Post-Production Project Team AFEs, Enhanced Recovery*
18 *Project Team AFE, or Long Lead Well Operation AFEs*). If a Non-
19 Participating Party in a Long Lead Well Operation AFE Elects or
20 Votes not to participate in the subsequently proposed well or well
21 operation described in the Long Lead Well Operation AFE proposal,
22 Article 16.5.3 (*Non-Consent Proprietary Geophysical Operations,*
23 *Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead*
24 *Development System AFEs, Post-Production Project Team AFEs,*
25 *Enhanced Recovery Project Team AFE, or Long Lead Well Operation*
26 *AFEs*) shall not apply, but the Costs incurred pursuant to the Long
27 Lead Well Operation AFE shall be included in the calculations of the
28 applicable Hydrocarbon Recoupment or Underinvestment, whichever
29 is applicable, in such well or well operation as set forth in Article 16
30 (*Non-Consent Operations*). If the Long Lead Well Operation AFE
31 benefits more than one well or well operation, the Cost will be
32 allocated, as appropriate, to each well or well operation conducted.

33
34 **6.2.4.3 Non-Participating Parties in the Operations Associated with a**
35 **Long Lead Well Operation AFE**

If a Party, who participated in a Long Lead Well Operation AFE, does not participate in an approved well or well operation, for which Long Lead Well Operation Items were procured under that AFE, the Operator shall reimburse that Party its Participating Interest Share of the Costs of those Long Lead Well Operation Items within thirty (30) days of the approval of such well or well operation; provided, however, that Party's share of those Costs shall be included in the calculation of any Hydrocarbon Recoupment to which it is subject as a result of such well or well operation. The Operator shall invoice the Participating Parties in that well or well operation for their proportionate share of the reimbursement under this Article 6.2.4.3 and in accordance with Exhibit "C."

6.2.4.4 Disposition of Items Associated with the Long Lead Well Operation AFE

Notwithstanding the provisions of Exhibit "C" and Article 3.1 (*Exhibits*), the Participating Parties in an approved well or well operation for which Long Lead Well Operation Items were procured shall approve by Vote the disposition of those Long Lead Well Operation Items if they are not utilized for the approved well or well operation. If the disposition is approved, the disposition will be binding on all Participating Parties in that well or well operation. The disbursement of the proceeds realized from the disposition of those Long Lead Well Operation Items shall take place in accordance with Exhibit "C."

6.2.5 Unit Area Assessment and Permitting AFEs

Subject to Article 6.2 (*AFE*s), the Operator may submit an AFE (an "Assessment/Permitting AFE") to the Parties, which will allow the Operator to conduct operations, including, but not limited to, shallow hazard surveys, archeological surveys and shallow water flow assessments that are necessary or reasonable to:

- (a) assess the Unit Area for potential Exploration Operations, Appraisal Operations and/or Development Operations; and/or

- 1 (b) prepare Exploration Plans, Applications for Permit to Drill, Development
2 Plans, Development Operation Coordination Documents, and other
3 requisite government filings.

4 **6.2.5.1 Proposal and Approval of a Assessment/Permitting AFE**

5 An Assessment/Permitting AFE proposal shall include a description
6 of the services to be performed and the description and estimated
7 timing for the well or well operation that will utilize such services.
8 Each Assessment/Permitting AFE proposal requires approval by
9 Election of the Parties. If the Assessment/Permitting AFE is not
10 approved by Election, then the Assessment/Permitting AFE proposal
11 shall be deemed withdrawn.

12 Approval of an Assessment/Permitting AFE shall not be deemed an
13 affirmative Vote or Election to participate in any subsequently
14 proposed wells or well operations for which such services are
15 performed.

16
17 **6.2.5.2 Non-Participating Parties in the Assessment/Permitting AFE**

18 A Party who Elects not to participate in an approved
19 Assessment/Permitting AFE shall become a Non-Participating Party
20 as to the Costs of the Assessment/Permitting AFE, and is subject to
21 same non-consent penalty under Article 16 (*Non-Consent*
22 *Operations*), as if the Party Elected not to participate in underlying
23 well or well operation. For example, if the Assessment/Permitting
24 AFE relates to the first Exploratory Well drilled upon the Unit Area,
25 the acreage forfeiture provisions of Article 16.2.1 (*First Exploratory*
26 *Well*) would apply. With the exception of Assessment/Permitting
27 AFEs relating to the first Exploratory Well and/or an operation
28 required to maintain the Unit Area, each Non-Participating Party in
29 an Assessment/Permitting AFE retains the right to participate in a
30 subsequently proposed well or well operation described in the
31 Assessment/Permitting AFE proposal, subject to its reimbursement to
32 the Participating Parties in the Assessment/Permitting AFE of an
33 amount equal to that set forth in the corresponding non-consent
34 provision for such well or well operation. If a Non-Participating Party
35 in an Assessment/Permitting AFE Elects or Votes not to participate

1 in the subsequently proposed, corresponding well or well operation
2 described in the Assessment/Permitting AFE proposal, the Costs
3 incurred pursuant to the Assessment/Permitting AFE shall be
4 included in the calculations of the Hydrocarbon Recoupment or
5 Underinvestment, if applicable, in such well or well operation as set
6 forth in Article 16 (*Non-Consent Operations*). If the
7 Assessment/Permitting AFE relates to more than one well or well
8 operation, the Cost will be allocated, as appropriate, to each well or
9 well operation conducted.

10
11 **6.2.5.3 Non-Participating Parties in the Operations Associated with an**
12 **Assessment/Permitting AFE**

13 If a Party, who participated in an Assessment/Permitting AFE, does
14 not participate in an approved well or well operation, for which
15 services were performed under that AFE, the Operator, on behalf of
16 the Participating Parties in such well or well operation, shall
17 reimburse that Party its Participating Interest Share of the Costs of the
18 same within thirty (30) days of the approval of such well or well
19 operation; provided, however, that Party's share of those Costs shall
20 be included in the calculation of any Hydrocarbon Recoupment to
21 which it is subject as a result of such well or well operation. The
22 Operator shall invoice the Participating Parties in that well or well
23 operation for their proportionate share of the reimbursement under
24 this Article 6.2.5.3 and in accordance with Exhibit "C."

25 **6.3 Security Rights**

26 Exhibit "F" (LOUISIANA) applies.

27 **6.4 Annual Operating Plan**

28 **6.4.1 Effect and Content of Annual Operating Plan**

29 The Annual Operating Plan is for informational and planning purposes and does
30 not obligate any Party to any course of action or expenditures or constitute a
31 Vote, Election, or unanimous agreement to participate in any specific activity or
32 operation. To the extent known on the date of submission of the Annual
33 Operating Plan, the Annual Operating Plan shall include the following items,
34 without limitation:

6.4.1.1 Capital Budget

- (a) a list of proposed wells to be drilled including their anticipated order, drilling time, depths, surface and bottomhole locations, objective sands, type of well (Development, Appraisal), purpose of well (production, injection), and estimated Costs;
- (b) capital well operations listed by well, with their estimated Cost;
- (c) capital projects that have estimated gross Costs greater than two million dollars (\$2,000,000). The term “capital project” includes addition of new equipment and expansion or upgrades of existing equipment; and
- (d) an estimated total amount (in aggregate) for capital projects.

6.4.1.2 Expense Budget

- (a) expense well operations listed by well, with their estimated Cost;
- (b) expense projects that have estimated gross Costs greater than two million dollars (\$2,000,000). The term “expense project” includes repair, replacement, inspection, and maintenance of existing equipment;
- (c) an estimated total amount (in aggregate) for expense projects; and
- (d) estimated Operations and Maintenance (O&M) expenditures for the year may be shown in the aggregate. O&M expenses include the ongoing, everyday expenditures necessary to operate the field.

6.4.1.3 Operator Forecasts and Informational Items

- (a) production forecasts;
- (b) injection forecasts;
- (c) fuel gas forecasts;

- (d) scheduled or planned downtime exceeding three (3) days;
- (e) data collection programs;
- (f) Facility constraint and ullage forecast;
- (g) geochemical or geophysical survey(s) or special test(s) that might be contemplated; and
- (h) other areas deemed of significance by the Operator.

6.4.2 Submission of Draft Annual Operating Plan

Beginning in the year in which a Development Plan is approved, and in each subsequent year, the Operator shall develop and submit to the Non-Operating Parties, by July 1, a draft Annual Operating Plan for the next calendar year. The Annual Operating Plan process will be used (a) as a reporting mechanism by which the Operator will inform the Non-Operating Parties of results of the previous year's activities and operations, (b) to review ongoing activities and operations, and (c) for the remainder of the current year and the next succeeding calendar year, to forecast and plan activities and operations and to forecast anticipated Hydrocarbon production volumes, operating expenses, and capital expenditures.

6.4.3 Review of Draft Annual Operating Plan

The Non-Operating Parties may provide suggested changes, additions, or deletions to the Annual Operating Plan to the Operator and all other Parties in writing before September 1 of each year. The Operator will then make changes that it deems necessary (if any) and submit the final Annual Operating Plan to the Non-Operating Parties no later than November 1 of each year, at which time the Annual Operating Plan is deemed adopted by all Parties.

ARTICLE 7 – CONFIDENTIALITY OF DATA

7.1 Confidentiality Obligation

Confidential Data acquired or obtained by a Party shall be kept confidential during the term of this Agreement, and shall not be disclosed to a third party, unless it is disclosed under Article 7.1.1 (*Exceptions to Confidentiality*) or 7.1.2 (*Permitted Disclosures*). Each Party shall maintain the secrecy of the Confidential Data, using the standard of care it normally uses in protecting its own confidential information and trade secrets.

1 **7.1.1 Exceptions to Confidentiality**

2 The confidentiality obligation shall not apply to Confidential Data that is:

- 3 (a) now or later becomes part of the public domain (other than as a result of a
- 4 wrongful act or omission by a Party);
- 5 (b) now or later becomes available to a Party on a non-confidential basis from
- 6 a source, other than a Party, that is legally permitted to disclose the item
- 7 of Confidential Data;
- 8 (c) known to a Party on a non-confidential basis before disclosure of the
- 9 Confidential Data to it under this Agreement or to which that Party was
- 10 otherwise entitled at the time of disclosure; or
- 11 (d) independently developed by employees, Affiliates, contractors, and/or
- 12 consultants of a Party who have not had access to the Confidential Data.

13 **7.1.2 Permitted Disclosures**

14 **7.1.2.1 Operator's Permitted Disclosures**

15 The Operator may disclose items of Confidential Data to those third

16 parties as may be necessary to conduct activities and operations under

17 this Agreement, if the third parties are bound by written agreement to

18 keep the Confidential Data secret for:

- 19 (a) the period of time set forth in the Operator's service
- 20 agreement with those third parties; or
- 21 (b) two (2) years from commencement of services if a service
- 22 agreement does not exist with those third parties.

23 Notwithstanding the foregoing, should the Operator disclose

24 Confidential Data to an Affiliate, then the Operator shall require its

25 Affiliate to handle, hold, and protect the Confidential Data as if it

26 were a Party to this Agreement.

27 **7.1.2.2 All Parties' Permitted Disclosures**

28 Subject to the restriction that a third party shall be bound by written

29 agreement not to use or disclose the Confidential Data for a period of

30 two (2) years from Receipt by such third party, except for the express

1 purpose for which the disclosure is made to such third party, all
2 Parties may disclose, in whole or in part, the Confidential Data to the
3 following receiving parties, who may remove the Confidential Data
4 from the custody and premises of the Party making such disclosure:

- 5 (a) to its Affiliate;
- 6 (b) to a bona fide, financially responsible, prospective assignee of
7 any portion of:
- 8 i. the Party's Working Interest; or
- 9 ii. a Non-Consenting Party's Working Interest,
- 10 (including but not limited to an entity with whom a Party or its
11 Affiliates is conducting bona fide negotiations directed toward
12 a merger, consolidation or a sale of a Party's or an Affiliate's
13 shares or substantially all of its assets on the OCS);
- 14 (c) to potential contractors, professional consultants, or outside
15 legal counsel engaged by or on behalf of the Party and acting in
16 a capacity where that disclosure is essential to the contractor's,
17 consultant's, or outside legal counsel's work;
- 18 (d) to an insurance broker or underwriter, bank or other financial
19 institution to the extent appropriate to a Party arranging
20 financing or insurance for its obligations under this Agreement;
- 21 (e) to the extent required by a Lease, or by law, order, decree,
22 regulation, or rule (including, without limitation, those of any
23 regulatory agency, securities commission, stock exchange,
24 judicial, or administrative proceeding). If a Party is required to
25 disclose Confidential Data under this Article 7.1.2.2(e), the
26 Party shall promptly provide all other Parties to this Agreement
27 written notice of those proceedings so that the non-disclosing
28 Parties may seek a protective order or other remedy. A
29 disclosing Party shall furnish only such Confidential Data as is
30 legally required and will use its reasonable efforts to obtain
31 confidential treatment for any Confidential Data disclosed;

(f) to an entity allocating or desiring to transport, process, or purchase Hydrocarbons produced under this Agreement for the purpose of making Hydrocarbon reserve estimates or other technical evaluations or allocating Hydrocarbon products to source points;

(g) to third parties for benchmarking studies and industry performance reviews; provided that the Confidential Data disclosed does not include competitive information or data and the studies blind the identities of the participants and the origin of the Confidential Data; and

(h) to a contractor for the purpose of offsite storage of Confidential Data.

7.1.3 Limited Releases to Offshore Scout Association

The Operator may disclose Confidential Data to the Offshore Oil Scouts Association at their weekly meetings. The Confidential Data that may be disclosed is limited to information concerning well locations, well operations, and well Completions to the extent reasonable and customary in industry practice or required under the by-laws of the Offshore Oil Scouts Association.

7.1.4 Continuing Confidentiality Obligation

A Party who ceases to own a Working Interest remains bound by the confidentiality and use obligations of this Agreement as to Confidential Data obtained through this Agreement under Article 7.1 (*Confidentiality Obligation*).

7.2 Ownership of Confidential Data

Except as otherwise provided for in this Article 7, all Confidential Data produced as a result of an activity or operation conducted hereunder shall be the property of all Participating Parties in that activity or operation. A Non-Participating Party has no rights in or access to Confidential Data produced or derived from a Non-Consent Operation unless and until Complete Recoupment has taken place.

7.2.1 Trades of Confidential Data

Any Participating Party may propose the exchange or trade of any Confidential Data or other similar data and information owned by a third party. Upon approval of said exchange or trade by unanimous agreement of the Participating

Parties, that approval shall bind all Participating Parties, and the Operator shall utilize the Well Data Trade and Confidentiality Agreement in Exhibit "I" in order to consummate that exchange or trade with the third party. The Operator shall promptly provide all Participating Parties copies of the third party data obtained along with copies of any agreement relating to that exchange or trade.

7.2.2 Ownership of Non-Consent Data

After Complete Recoupment has taken place and a Non-Participating Party has become a Participating Party in an activity or operation, that Non-Participating Party shall become an owner of the Confidential Data and information resulting from that activity or operation. Within fifteen (15) days after Complete Recoupment, the Operator shall furnish that Confidential Data and information to the former Non-Participating Party.

7.3 Access to the Lease and Rig

Except as provided in Article 6.3(b) (*Default*) in Exhibit "F," each Participating Party may attend meetings between the Operator and any contractors constructing the Production System or Facilities specified in the Execution AFE as well as access to the construction sites. Except as otherwise provided in Article 6.3(b) (*Default*) in Exhibit "F," each Participating Party shall have access to all drilling rigs, Production Systems, and Facilities to observe and inspect operations and wells in which it participates (and the pertinent records and other data). Access by the Participating Party to a drilling rig, Production System, or Facility serving a Unit Area shall be scheduled through the Operator at least forty-eight (48) hours in advance (or, if conditions do not permit that much advance scheduling, with as much advance scheduling as is reasonably possible). Each Party's access will be at reasonable times and may not unreasonably interfere with operations at the site, and shall be subject to the provisions of Article 22.8.

7.4 Development of Proprietary Information and/or Technology

The ownership, use, treatment, and disclosure of proprietary information or technology, including, but not limited to, drilling technology, production technology, production systems and facilities, and their transportation and installation, pipelines, flowlines, and offshore oil and gas transportation that are charged to the Joint Account shall be handled under Exhibit "G."

ARTICLE 8 – APPROVALS AND NOTICES

8.1 Classes of Matters

Action will be taken on a proposed activity or operation only after the procedures and approval requirements in this Agreement have been satisfied. There are four general classes of activities or operations under this Agreement: (a) those requiring approval by Vote, (b) those requiring approval by Election, (c) those requiring approval by unanimous agreement, and (d) those within the discretion of the Operator.

8.1.1 Voting and Electing Interest

If all Parties are entitled to make an Election or Vote, each Party has an Electing interest or a Voting interest equal to its Working Interest or its Participating Interest Share, as applicable. If a Party does not have a right to make an Election or Vote, each of the other Parties has an Electing interest or a Voting interest, as applicable, equal to its Working Interest or its Participating Interest Share, as applicable, divided by the total Working Interest or Participating Interest, as applicable, of those Parties who have a right to make an Election or Vote.

8.2 Voting and Election Procedures

The Parties shall Vote or make an Election on proposals requiring a Vote or Election in the order in which those proposals are submitted, except as specified in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2 (*Appraisal Operations at Objective Depth*), and 13.2 (*Development Operations at Objective Depth*). Subject to Article 6.2 (*AFEs*), after Receipt of a notice properly given for an activity or operation requiring a Vote or Election, the Parties entitled to make that Vote or Election (a) may Vote or make an Election in accordance with this Article 8.2 (*Voting and Election Procedures*) and Article 8.7 (*Giving and Receiving Notices and Responses*) or (b) shall be deemed to have Voted or made an Election as provided in Article 8.6.5 (*Failure to Vote or Make an Election*).

A Vote or Election to participate in a proposal is evidenced by a Party making a written affirmative response to the proposal or by a Party's execution of the AFE associated with the proposal. Except as otherwise provided in this Agreement, a Vote or Election not to participate in a proposal is evidenced by a Party's written negative response to the proposal, a Party's failure to make a timely written affirmative response to the proposal or to timely execute the AFE associated with the proposal, or a Party's failure to timely make a subsequent Vote or Election under Article 8.3 (*Second Opportunity to Participate*). For the purposes of this Agreement, a Party's approval of an AFE for a well proposal shall be

1 deemed an approval of the Well Plan associated therewith, including any automatic
2 revisions to the Well Plan as set forth in Article 10.1.2 (*Revision of Well Plan*).

3 **8.2.1 Approval by Vote**

4 Approval by Vote shall be decided by a Vote of the Parties as follows:

5 (a) when one (1) Party or two (2) Parties are entitled to Vote, approval by
6 Vote shall require an affirmative Vote of one (1) or more Parties with a
7 Voting interest of greater than fifty percent (50%), or if the two (2) Parties
8 entitled to Vote have the same Voting interest, the affirmative Vote of all
9 Parties entitled to Vote; and

10 (b) when more than two (2) Parties are entitled to Vote, approval by Vote shall
11 require an affirmative Vote of two (2) or more Parties entitled to Vote with
12 a combined Voting interest of greater than fifty percent (50%).

13 **8.2.2 Approval by Election**

14 Approval by Election shall be decided by an affirmative Election by one (1) or
15 more Parties, entitled to make an Election, with a combined Electing interest of
16 twenty-five percent (25%) or more.

17 **8.3 Second Opportunity to Participate**

18 Unless otherwise provided to the contrary in this Agreement, if an activity or operation is
19 approved by Vote or Election but is not approved by all of the Parties, a Party who Voted
20 or Elected not to participate in the approved activity or operation may make a subsequent
21 Vote or Election to participate in the approved activity or operation within forty-eight (48)
22 hours (exclusive of Saturdays, Sundays, and federal holidays) of its Receipt of the original
23 Voting or Election results from the Operator; provided, however, if a drilling rig is on
24 location then the response time shall be within twenty-four (24) hours (exclusive of
25 Saturdays, Sundays and federal holidays) after its Receipt of the original Voting or Election
26 results. If a Party does not exercise its right to make a subsequent Vote or Election to
27 participate, it shall become a Non-Participating Party in the approved activity or operation.
28 If (a) all the Parties entitled to do so make an original Vote or Election or a subsequent
29 Vote or Election to participate in a proposed activity or operation or (b) an approval by
30 Vote is binding on all Parties, then the Operator shall commence the activity or operation
31 in accordance with the applicable timely operations provisions of this Agreement.

8.4 Participation by Fewer Than All Parties

If, after the period in which a Party may make a subsequent Vote or Election to participate, there is at least one Non-Participating Party in the approved activity or operation, each Party who made an original or a subsequent Vote or Election to participate in the approved activity or operation shall, within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) of its Receipt of the subsequent Voting or Election results, or, if a rig is on location, within twenty-four (24) hours (exclusive of Saturdays, Sundays and federal holidays) of its Receipt of the subsequent Voting or Election results,

(a) limit its participation in the approved activity or operation to its Working Interest share, or

(b) agree to bear its Participating Interest Share of the approved activity or operation

by written correspondence to the Operator. Failure to submit that written correspondence shall be deemed a written correspondence under (a). If a Party, who made an original or a subsequent Vote or Election to participate in the approved activity or operation, submits or is deemed to have submitted a written correspondence under (a) and the other Parties who made an original or a subsequent Vote or Election to participate in the approved activity or operation do not agree to bear all of the remaining Costs of the approved activity or operation within fifteen (15) days after the written correspondence period (or twenty-four (24) hours -exclusive of Saturdays, Sundays and federal holidays- if a rig is on location), the proposal of the approved activity or operation and all Votes and Elections in regard to the approved activity or operation shall be deemed withdrawn. Once the Parties, who made an original or a subsequent Vote or Election to participate in an approved activity or operation in which there is a Non-Participating Party, agree to bear all of the Costs of the approved activity or operation, the Operator shall commence the activity or operation at the sole Cost and risk of the Participating Parties in accordance with the applicable timely operations provisions of this Agreement. Notwithstanding the foregoing, the election periods in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2 (*Appraisal Operations at Objective Depth*), and 13.2 (*Development Operations at Objective Depth*) shall govern in the event of a conflict.

8.5 Approval by Unanimous Agreement

After Receipt of a notice for a proposal that requires unanimous agreement, each Party entitled to approve (or disapprove) that activity or operation may indicate its approval or disapproval by providing a written statement in a response. Unless otherwise specifically provided, failure of a Party to make such a response is deemed its disapproval.

1 **8.6 Response Time for Notices**

2 After Receipt of an AFE or notice under this Article 8, the Parties may:

3 (a) submit their Vote,

4 (b) make an Election,

5 (c) submit a written statement, or

6 (d) submit a counter-proposal,

7 whichever is applicable. If requested in writing by a Party entitled to (a) submit their Vote,
8 (b) make an Election, (c) submit a written statement, or (d) submit a counter-proposal, as
9 applicable, on an AFE or notice, the Operator shall give prompt notice of the results of
10 those Votes, Elections or written statements to each Party entitled to (a) submit their Vote,
11 (b) make an Election, (c) submit a written statement, (d) submit a counter-proposal, as
12 applicable. Except as otherwise provided in this Agreement, the response times for each
13 type of proposal shall be as follows:

14 **8.6.1 Well, Well Operations, or Supplemental AFEs for a Well or Well Operation**
15 **Proposals**

16 When a well or well operation is proposed, each Party entitled to Vote or make
17 an Election or submit a written statement, whichever is applicable, has, except
18 as provided below, thirty (30) days after Receipt of the proposal (inclusive of
19 Saturdays, Sundays, and federal holidays) to respond to it. With the exception
20 of proposals for new wells (other than a substitute well) proposed under Articles
21 10.1 (*Proposal of Exploratory Wells*), 11.1 (*Proposal of Appraisal Wells*), 13.1
22 (*Proposal of Development Wells*), if a drilling rig is on location when a well or
23 well operation is proposed, then a Party entitled to Vote or make an Election or
24 submit a written statement has forty-eight (48) hours (exclusive of Saturdays,
25 Sundays, and federal holidays) following the latter of:

26 (a) Receipt of the proposal; or

27 (b) the commencement of Standby Charges,

28 to respond to it. The response times for subsequent operations at Objective
29 Depth are provided in Article 10.2 (*Exploratory Operations at Objective Depth*),

Article 11.2 (*Appraisal Operations at Objective Depth*), and Article 13.2 (*Development Operations at Objective Depth*).

8.6.2 Execution AFE

Each Party entitled to make an Election on an Execution AFE has one hundred and twenty (120) days after the date of its Receipt of the Execution AFE to make that Election.

8.6.3 Other AFE Related Operations

Except as otherwise provided in Articles 8.6.1 (Well, Well Operations, or Supplemental AFEs for a Well or Well Operation Proposals) and 8.6.2 (*Execution AFE*), the response time to a proposed AFE, activity, or operation will depend upon the gross AFE amount. Response times will be as follows:

- (a) AFE of five hundred thousand dollars (\$500,000) or more but less than twenty-five million dollars (\$25,000,000); response will be made within thirty (30) days after Receipt of said proposal;
- (b) AFE of twenty-five million dollars (\$25,000,000) or more but less than one hundred million dollars (\$100,000,000); response will be made within ninety (90) days after Receipt of said proposal; and
- (c) AFE of one hundred million dollars (\$100,000,000) or more; response will be made within one hundred twenty (120) days after Receipt of said proposal.

8.6.4 Other Proposals

For all other proposals requiring notice, and all supplemental AFEs other than those subject to Article 8.6.1 (Well, Well Operations, or Supplemental AFEs for a Well or Well Operation Proposals), each Party has thirty (30) days after Receipt of the proposal to respond to it.

8.6.5 Failure to Vote or Make an Election

Unless otherwise specifically provided, failure of a Party to Vote or make an Election, whichever is applicable, within the period required by this Agreement is deemed to be a Vote or Election not to participate.

1 **8.6.6 Suspensions of Operations and Suspensions of Production**

2 Notwithstanding any contrary provision in Article 8.6 (*Response Time for*
3 *Notices*), if the DOI grants a Suspension of Production (“SOP”), a Suspension
4 of Operations (“SOO”), or similar regulatory grant for all or part of the Unit
5 Area, and if the SOP, SOO, or grant requires the commencement of an activity
6 or operation before the expiration of the period for Voting, making an Election,
7 or submitting a written statement, as provided in Article 8.5 (*Approval by*
8 *Unanimous Agreement*) for that activity or operation, the Parties shall cast their
9 Votes, make their Elections, or submit their written statement on the activity or
10 operation at least sixty (60) days (inclusive of Saturdays, Sundays and federal
11 holidays) before the commencement date required in the SOO, SOP, or grant.

12 **8.6.7 Standby Charges Associated with Immediate Substitute Wells, Subsequent**
13 **Operations, and/or Supplemental AFE Proposals**

14 The Participating Parties in a well or well operation conducted immediately prior
15 to the Receipt of a:

16 (a) proposal for an immediate substitute well or a subsequent operation in a
17 well, or

18 (b) supplemental AFE,

19 are responsible for charges associated with the well or well operation that accrue
20 before that Receipt.

21 All charges, which accrue after that Receipt, are the responsibility of the
22 Participating Parties in the immediate substitute well, subsequent operation, or
23 supplemental AFE.

24 If the proposal of:

25 (a) an immediate substitute well or subsequent operation, or

26 (b) a supplemental AFE

27 is not approved, the Participating Parties in the well or well operation conducted
28 immediately prior to the Receipt of that proposal or supplemental AFE are
29 responsible for the charges that accrue after that Receipt.

1 **8.7 Giving and Receiving Notices and Responses**

2 Except as otherwise provided in this Agreement, all notices and responses required or
3 permitted by this Agreement shall be in writing and shall be delivered in person or by mail,
4 courier service, electronic mail, or facsimile transmission, with postage and charges
5 prepaid, addressed to the Parties at the addresses in Exhibit “A.” A notice shall be deemed
6 delivered upon Receipt.

7 **8.8 Content of Notices**

8 A notice requiring a response shall indicate the appropriate response time specified in
9 Article 8.6 (*Response Time for Notices*). A well proposal notice shall include the type of
10 well being proposed, (for example, Exploratory Well, Appraisal Well, or Development
11 Well), a Well Plan, and an AFE that includes the Costs of permanently plugging and
12 abandoning the well. If a proposed activity or operation is subject to Article 16.4 (*Non-*
13 *Consent Operations to Maintain Unit Area*), the notice shall specify that the proposal is a
14 Unit Area maintenance activity or operation.

15 Upon written request and if available, the Operator shall endeavor to provide the following
16 documents to the Non-Operators; however, (i) such documents requested are not required
17 for a valid Well Plan under Article 2.75 (*Well Plan*) and (ii) the Operator is under no
18 obligation to provide such documents to a Party once such Party has elected not to
19 participate in the Well Plan and AFE:

20 (a) final detailed operational procedure document with associated well design technical
21 documents, *e.g.* drilling fluids, BHA design;

22 (b) wellhead bending load analysis (for DP mobile offshore drilling unit [“MODU”]
23 only);

24 (c) well control and spill containment document for deep water wells drilled in the
25 OCS waters or other complex type wells, including the following information:

26 i. relief well planning and equipment availability;

27 ii. spill response and containment method;

28 iii. well control competency assurance process in place;

29 iv. blow out contingency plan; and

- 1 v. well control bridging document for contracted specific DP MODU with
2 regard to drilling, completion, and or well testing or well flow back
3 operations;

4 (d) QA/QC processes for acceptance of critical material or equipment:

- 5 i. detailed well completion design basis document, including:

- 6 • proposed detailed well completion schematics (lower and upper
7 completion drawings with all completions equipment identified);
8 • Completion operational procedure document (upper and lower
9 completion); and
10 • well control plan during upper completion (tubing string installation
11 operations), and or well flow-back operations;

12 ii. in addition, for proposed well workover, recompletion, or sidetracking (if
13 applicable):

- 14 • description of proposed work scope, including proposed outcome;
15 • diagram of proposed well after workover, recompletion, or sidetrack;
16
17 • detailed operational procedure, including plans for well bore cleanout
18 procedure and fluid loss mitigation method;
19 • proposed well completion schematics (lower and upper completion
20 drawings with all down hole completions equipment identified by name
21 and dimensions); and
22 • well control plan during well intervention operations.

23 **8.9 Designation of Representatives**

24 The names, addresses, e-mail addresses and telephone and facsimile numbers of a
25 designated representative and alternate for each Party to whom notices or responses shall
26 be directed, are provided in Exhibit "A." The designated representative and the alternate
27 may be changed by written notice to the other Parties.

8.10 Meetings

Any Party may call a meeting. Except in an emergency, no meeting shall be called on less than five (5) days' advance notice (inclusive of Saturdays, Sundays, and federal holidays), and the notice shall include a proposed agenda. The Operator shall be chairman of each meeting and take minutes of each meeting. Only matters included in the agenda may be considered at a meeting unless unanimously agreed to by the Parties.

8.11 Obligations of Participation Election

Subject to Article 6.2 (*AFEs*), a Participating Party in an Exploratory Operation, an Appraisal Operation, or a Development Operation is responsible for its Participating Interest Share of:

- (a) all necessary Costs for such operation as set forth in the approved proposal for such operation,
- (b) plugging and abandonment, if applicable;
- (c) mobilization charges as set forth in Article 8.11.2; and
- (d) well control and containment charges but excluding any Costs incurred by the Operator to acquire an ownership interest in such well control and containment company.

8.11.1 Mobilization Charges

A Participating Party in an Exploratory Operation, Appraisal Operation, or Development Operation is responsible for its Participating Interest Share of the reasonable allocated Costs to mobilize the rig approved in the Well Plan to location. However, the Operator shall only be entitled to charge Participating Parties for mobilizing such rig within the OCS. Unless otherwise unanimously agreed to by the Participating Parties, in no event shall the Participating Parties be obligated to pay for such rig's mobilization from or to a location outside the OCS.

ARTICLE 9 – NEWS RELEASES**9.1 Proposal of News Releases**

Any Party may propose for the issuance of a News Release about the activities or operations covered by this Agreement by submitting the text of the News Release to the

Parties. A News Release proposal requires the unanimous agreement of the Parties, except as otherwise provided below. The Parties shall respond to a News Release proposal within forty-eight (48) hours of their Receipt of it by agreeing or disagreeing with the text of the proposed News Release, or by submitting alternative text for the News Release. If a Party submits alternative text for the News Release, the Parties shall have twenty-four (24) hours to agree or disagree with any of the proposed texts of the News Release. If a Party fails to respond within the appropriate time frame, the Party shall be deemed to have not approved such proposed News Release.

9.1.1 Operator's News Release

If the Parties do not unanimously agree to any of the texts of a proposed News Release within the time period set forth in Article 9.1 (*Proposal of News Releases*), the Operator has the exclusive right for twenty-four (24) hours, following the last response under Article 9.1 (*Proposal of News Releases*), to submit a News Release on the subject matter of the original proposal to the Parties in accordance with this Article 9.1.1. If the News Release pertains to a well or an operation in a well, the Operator must limit the content of the News Release to the following information:

- (a) the name of the well or operation and the water depth;
- (b) the location of the well by protraction area, block, and adjacent state;
- (c) the lease bonus paid and the lease acquisition date;
- (d) additional drilling / appraisal plans;
- (e) the participants in, and their Working Interest in, the well or operation; and
- (f) the surrounding acreage controlled by the participants.

If the News Release does not pertain to a well or an operation in a well, it may only contain information that is not Confidential Data or Confidential Information (as defined in Exhibit "G") and does not substantially undermine the Parties' competitive advantage in the area surrounding, or trend or play pertaining to, the Unit Area. The Operator shall transmit the News Release to the Non-Operating Parties not less than twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) before the time at which the Operator wishes to issue it. Any Party may have its name excluded from the News

1 Release by notifying the Operator of that desire within twenty (20) hours of that
2 Party's Receipt of the News Release.

3 **9.1.2 Non-Operating Party's News Release**

4 If the Operator issues the News Release within its twenty-four (24) hour period
5 referred to in Article 9.1.1 (*Operator's News Release*), thereafter, any
6 Participating Party may issue its own News Release subject to the content
7 guidelines and procedures provided in Article 9.1.1 (*Operator's News Release*).
8 If the Operator does not issue the News Release within its twenty-four (24) hour
9 period referred to in Article 9.1.1 (*Operator's News Release*), thereafter, any
10 Participating Party may issue its own News Release subject to the content
11 guidelines and procedures provided in Article 9.1.1 (*Operator's News Release*).

12 **9.2 Emergency New Releases**

13 In an emergency involving extensive property damage, loss of human life, or other clear
14 emergency and where there is insufficient time to obtain approval from the other Parties,
15 the Operator may furnish factual information necessary to satisfy legitimate public interest
16 or governmental authorities having jurisdiction. The Operator shall immediately notify the
17 Parties of the information furnished in response to the emergency.

18 **9.3 Mandatory News Releases**

19 Each Party has the right to issue a News Release which contains information not otherwise
20 permitted under Article 9 (*News Releases*) in order to comply with the laws, orders, rules,
21 or regulations of the country in which its parent company is incorporated; provided,
22 however, prior to issuing that News Release, that Party must submit, not less than forty-
23 eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) before issuance of
24 the News Release:

- 25 (i) the text of that News Release to the other Parties, and
26 (ii) if a News Release (including its content) is required under the laws, orders, rules,
27 or regulations of a country other than the United States of America, an explanatory
28 statement from a licensed attorney in such country.

29 **9.4. News Release Necessitated by Publication or Announcement by Governmental or**
30 **Regulatory Authority**

31 Each Party has the right to issue a News Release that contains information not otherwise
32 permitted under Article 9 (*News Releases*) in a situation where a governmental or

1 regulatory authority publishes or announces information regarding any activities or
2 operations affected by this Agreement, and for which the Party reasonably believes needs
3 to be clarified, further detailed or otherwise commented on to satisfy the legitimate public
4 interest in such information. In such a situation, a Party may furnish the minimum, strictly
5 factual, information necessary and shall then promptly advise the other Parties of the
6 information furnished in response to the publication or announcement.

7 **ARTICLE 10 – EXPLORATORY OPERATIONS**

8 **10.1 Proposal of Exploratory Wells**

9 Any Party may propose drilling an Exploratory Well within the Unit Area by giving notice
10 of the proposal (along with the associated AFE and Well Plan) to the other Parties. Each
11 proposed Exploratory Well requires approval by Election.

12 Each Non-Participating Party in an Exploratory Well will be subject to either an acreage
13 forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-Consent*
14 *Operations*).

15 **10.1.1 Pre-Exploratory Well AFE Meeting**

16 Prior to submitting an AFE for a new Exploratory Well (including any substitute
17 well, except for a substitute well proposed while a rig is on the Unit Area), the
18 Operator shall call a meeting of the Parties entitled to an Election as to the
19 contemplated new Exploratory Well or its substitute, if applicable, to share with
20 said Parties the preliminary scope of the contemplated new Exploratory Well.
21 Although the Operator may change, modify or alter the preliminary scope of the
22 contemplated new Exploratory Well subsequent to the meeting but prior to
23 submission of the AFE associated therewith, as contemplated herein, the general
24 items the Operator will address at the meeting, shall consist of a preliminary well
25 design, a preliminary rig selection/type and timing, a preliminary total estimated
26 depth of the well, a preliminary Objective Depth criteria, a preliminary surface
27 and bottomhole location(s), and a preliminary zone(s) of interest. Should a Non-
28 Operator contemplate proposing an AFE for a new Exploratory Well (or its
29 substitute, if applicable), said Non-Operator shall call a meeting as provided in
30 this Article 10.1.1 (*Pre-Exploratory Well AFE Meeting*).

31 **10.1.2 Revision of Well Plan**

32 Except as provided in Article 10.1.3 (*Automatic Revision of the Well Plan*), a
33 revision to an approved well proposal, Well Plan, or AFE prior to the

1 commencement of actual drilling operations on an Exploratory Well requires the
2 unanimous agreement of the Participating Parties. In the absence of such
3 unanimous agreement on a proposed revision to the well proposal, Well Plan or
4 AFE, the well proposal, Well Plan, or AFE will stand as approved, except as
5 provided in Article 10.1.3 (*Automatic Revision of the Well Plan*). Only a major
6 revision to an approved well proposal, Well Plan or AFE prior to the
7 commencement of actual drilling operations will give a Non-Participating Party
8 an additional opportunity to participate in the Exploratory Well. A revision is
9 deemed a major revision only if the Objective Depth of an Exploratory Well is
10 changed or the bottomhole location is moved either vertically or horizontally
11 more than five hundred feet (500'); in which case each Non-Participating Party
12 in the well may, for a period of ten (10) days after Receipt of the revised well
13 proposal, Well Plan, or AFE, notify the Operator in writing that it will participate
14 in the revised Exploratory Well. It is understood, however, in no event shall a
15 Non-Participating Party in a Non-Consent Exploratory Well that is abandoned
16 due to mechanical reasons have the right to participate in a substitute
17 Exploratory Well for such abandoned well by virtue of a major revision to such
18 substitute Exploratory Well's Well Plan.

19 A Non-Participating Party timely submitting its participation notification under
20 this Agreement due to a major revision in a Well Plan (a) shall become an
21 Underinvested Party for Costs incurred (if any) on the Exploratory Well prior to
22 the approved major revision and (b) with regard to that well, shall no longer be
23 subject to Article 16 (*Non-Consent Operations*) as to said Costs. The Non-
24 Participating Party's Underinvestment obligation, resulting from its participation
25 decision, shall be calculated as follows: actual Costs expended on that
26 Exploratory Well multiplied by the Non-Participating Party's percentage
27 Participating Interest Share in the modified Exploratory Well. In the event the
28 Non-Participating Party forfeited and assigned its right, title, and interest in the
29 Unit Area by not participating in that Exploratory Well, then within thirty (30)
30 days after the Operator's Receipt of the Non-Participating Party's participation
31 notification under this Agreement, the Participating Parties in the Exploratory
32 Well proposal that assumed the Non-Consent interest or any portion thereof shall
33 proportionately assign to the Non-Participating Party one hundred percent
34 (100%) of the Non-Participating Party's former Working Interest in the Unit
35 Area.

1 **10.1.3 Automatic Revision of the Well Plan**

2 Prior to or during the drilling of an Exploratory Well, the Well Plan may be
3 revised by the Operator as is necessary for it to employ prudent oilfield practices
4 to conduct safe operations, or as directed, required, mandated and/or advised by
5 the DOI or any other governmental authority having jurisdiction over such
6 operations and those revisions will not require the approval of the Participating
7 Parties as long as the Operator's revisions carry out the scope and intent of the
8 approved Well Plan and AFE, except as provided in Article 6.2.2 (*Supplemental*
9 *AFEs*). Moreover, and notwithstanding anything to the contrary in Article
10 10.1.2, any such automatic revisions made by the Operator prescribed in this
11 Article 10.1.3 prior to the commencement of drilling operations shall not be
12 considered a major revision.

13 **10.1.4 Timely Operations**

14 Except as provided below, drilling operations on an Exploratory Well shall be
15 commenced within two hundred and seventy (270) days after the end of the
16 period for the approval of an Exploratory Well. If the Operator, except for an
17 occurrence of Force Majeure, does not commence drilling operations on an
18 Exploratory Well within that two hundred and seventy (270) day period, the
19 approved Exploratory Well proposal shall be deemed withdrawn, with the effect
20 as if the Exploratory Well had never been proposed and approved, and the Non-
21 Operating Parties may then select a substitute Operator under Article 4.2.2
22 (*Substitute Operator if Operator Fails to Commence Drilling Operations*).
23 Within thirty (30) days of the selection of the substitute Operator, the substitute
24 Operator may propose the drilling of an identical Exploratory Well (except for
25 any necessary modifications resulting from a change in the drilling rig to be
26 utilized by the substitute Operator), and it may commence drilling operations on
27 that well within two hundred and seventy (270) days after the end of the period
28 for the approval of that Well.

29 If an approved Exploratory Well proposal is deemed withdrawn due to a failure
30 to timely commence drilling operations on that well, all Costs incurred, which
31 are attributable to the preparation for, or in furtherance of, the Exploratory Well,
32 will be chargeable to the Participating Parties. Drilling operations for an
33 Exploratory Well under this Article 10.1.4 shall be deemed to have commenced
34 on the date the rig arrives on location or, if the rig is already on location, the date

1 when actual drilling operations for the approved Exploratory Well are
2 undertaken.

3 **10.1.5 AFE Overruns and Substitute Well**

4 Once an Exploratory Well is commenced, the Operator shall drill the well with
5 due diligence to its Objective Depth, subject to:

- 6 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental AFEs*),
7
8 (b) the Operator encountering mechanical difficulties, uncontrolled influx of
9 subsurface water, loss of well control, abnormal well or formation
10 pressures, pressured or heaving shale, granite or other practicably
11 impenetrable substances, or other similar conditions in the well bore or
12 damage to the well bore that, in the Operator's sole opinion, render further
well operations impractical, and
13
14 (c) the unanimous agreement of the Participating Parties to cease drilling an
Exploratory Well before reaching Objective Depth.

15 If an Exploratory Well is abandoned due to the conditions described under
16 Article 10.1.5(b), then any Participating Party in the abandoned Exploratory
17 Well may, within sixty (60) days after abandonment of the Exploratory Well,
18 propose the drilling of a substitute well for the abandoned Exploratory Well by
19 giving notice of the proposal (along with the associated AFE and Well Plan) to
20 all other Participating Parties in the abandoned Exploratory Well, and that
21 proposal requires approval by Election of the Participating Parties in the
22 abandoned Exploratory Well. Notwithstanding any contrary provision of Article
23 10.4 (*Conclusion of Exploratory Operations*), the substitute well shall be
24 deemed as an Exploratory Well. The Well Plan for the substitute Exploratory
25 Well shall be substantially the same as the Well Plan for the abandoned
26 Exploratory Well and shall also take into account the conditions that rendered
27 further drilling of the abandoned Exploratory Well impractical. Each Non-
28 Participating Party in a substitute Exploratory Well or an approved supplemental
29 AFE for an Exploratory Well will be subject to either an acreage forfeiture or
30 Hydrocarbon Recoupment, as provided in Article 16 (*Non-Consent Operations*).

1 **10.2 Exploratory Operations at Objective Depth**

2 After an Exploratory Well has been drilled to such Objective Depth and all operations in
3 the controlling AFE have been conducted or terminated (except temporary abandonment
4 and permanent plugging and abandonment) and all logs and test results have been
5 distributed to the Participating Parties, the Operator shall promptly notify the Parties
6 entitled to Vote or make an Election (i.e., the Participating Parties) of its proposal to
7 conduct subsequent operations in the well. Except for a proposal to permanently plug and
8 abandon the well, the Operator's proposal shall include an associated AFE and a plan for
9 the operation.

10 If the Participating Parties have secured the requisite approval to either:

11 (i) Sidetrack said well, or

12 (ii) Deepen said well,

13 and, provided that Article 16.2 (*Acreage Forfeiture Provisions*) was not applicable to the
14 drilling of that Exploratory Well, then, contingent upon the unanimous approval of the
15 Participating Parties in the approved Sidetrack or Deepening Operation, the Operator shall
16 notify each former Non-Participating Party of the proposal. Each former Non-Participating
17 Party may respond with an Election regarding such a proposal by notifying the Operator
18 of its Election within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal
19 holiday) after receiving the Operator's notice. Any former Non-Participating Party making
20 an Election to participate in the Deepening or Sidetracking of an Exploratory Well shall be
21 subject to Article 10.2.5.

22 The Operator's proposal shall be for one (1) of the following operations:

23 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations
24 encountered prior to setting production casing;

25 (b) Sidetrack the well bore to conventionally core the formations encountered;

26 (c) Deepen the well to a new Objective Depth; provided, however, if in the Operator's
27 sole opinion a casing string is required to Deepen the well, then option "d" shall have
28 priority over Deepening the well to a new Objective Depth;

29 (d) Sidetrack the well, including the requisite plug back operations related thereto;

30 (e) conduct Production Testing;

- 1 (f) Complete the well;
- 2 (g) conduct other operations on the well not listed;
- 3 (h) temporarily abandon the well; or
- 4 (i) permanently plug and abandon the well.

5 Notwithstanding any contrary provision in this Agreement, the Completion of an
6 Exploratory Well as a Subsequent Exploratory Operation shall require approval by the
7 Vote of the Participating Parties, and a Non-Participating Party in a Completion conducted
8 of an Exploratory Well after it has reached its Objective Depth is:

- 9 (i) subject to a Hydrocarbon Recoupment amount equal to its Non-Participating
10 Interest Share of the Costs of the Completion Operation multiplied by four hundred
11 percent (400%) in lieu of the Hydrocarbon Recoupment penalty set forth in Article
12 16.5.1.1 (*Non-Consent Exploratory Operations at Objective Depth*), and
- 13 (ii) relieved of the Costs and risks of such Completion Operation, but remains
14 responsible for its Participating Interest Share of the Costs of plugging and
15 abandoning the Exploratory Well less and except the extra Costs of plugging and
16 abandoning associated solely with the Completion in which it was a Non-
17 Participating Party.

18 If an Exploratory Well is temporarily abandoned under (h), then any additional operation
19 in that well shall be proposed as a new well operation, and shall be deemed an Exploratory
20 Operation, Appraisal Operation, or Development Operation proposal, as applicable in
21 accordance with the definitions set forth herein.

22 If the Operator fails to submit its proposal to the Participating Parties within twenty-four
23 (24) hours (exclusive of Saturdays, Sundays, and federal holidays) after receipt of all logs
24 and test results from an Exploratory Well by the Participating Parties, then any
25 Participating Party may make a proposal. In that event, the procedures in this Article 10.2
26 shall apply to that proposal, and any reference in this Article 10.2 to the “Operator’s
27 proposal” shall include a proposal made by a Participating Party.

28 **10.2.1 Response to Operator’s Proposal**

29 A Participating Party may, within twenty-four (24) hours (exclusive of
30 Saturdays, Sundays, and federal holidays) of its Receipt of the Operator’s

proposal, make a separate proposal (along with an associated AFE and a plan for the operation, except if the proposal is to permanently plug and abandon the well) for one of the operations in Article 10.2 (*Exploratory Operations at Objective Depth*), and the Operator, immediately after the expiration of the twenty-four (24) hour period for making a separate proposal shall provide the Parties entitled to make an Election with a copy of all separate proposals so made. If no separate proposal is made, the Parties entitled to make an Election shall, within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) following the latter of:

- (a) Receipt of the Operator's proposal; or
- (b) the commencement of Standby Charges,

make an Election on the Operator's proposal (except for a proposal to permanently plug and abandon). If a separate proposal is made, the Parties entitled to make an Election shall make an Election under the procedure in Article 10.2.2 (*Response to Highest Priority Proposal*). If a proposal to permanently plug and abandon the well is the only operation proposed, then the approval and Cost allocation provisions of Article 10.3 (*Permanent Plugging and Abandonment and Cost Allocation*) shall apply to that proposal. If Article 8.3 (*Second Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than All Parties*), or both, apply to any Election in Article 10.2 (*Exploratory Operations at Objective Depth*), then the response period in those articles shall be twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) instead of forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays). Notwithstanding any contrary provision of this Agreement, if one or more operations are proposed before the distribution of information resulting from the previously approved operation, then the response periods set forth above shall not commence until the Parties entitled to make an Election have received the information from the previously approved operation.

10.2.2 Response to Highest Priority Proposal

If a separate proposal is made, each Party entitled to make an Election shall, within twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) following the latter of:

(a) Receipt from the Operator of a complete copy of all separate proposals;
or

(b) the commencement of Standby Charges,

make its Election on the highest priority proposal (except a proposal to permanently plug and abandon the well). Article 10.2(a) has the highest priority, and Article 10.2(i) has the lowest priority. If different depths or locations are proposed for the same type of operation, preference shall be given to the shallowest depth, or the location nearest to the existing well bore, as applicable. If the proposal with the highest priority is approved, then the lower priority proposals shall be deemed withdrawn. Once the approved operation is completed, the Parties shall follow the procedure provided in this Article 10.2 (*Exploratory Operations at Objective Depth*) for all other proposals for operations in the well bore until such time as the well is Completed, temporarily abandoned or permanently abandoned.

10.2.3 Response on Next Highest Priority Proposal

If the proposal with the highest priority is not approved, then the next highest priority proposal shall be deemed the highest priority proposal and it shall be subject to the approval procedure in Article 10.2.2 (*Response to Highest Priority Proposal*). This process will continue until a proposal is approved to either Complete, temporarily abandon or permanently plug and abandon the Exploratory Well.

10.2.4 Non-Participating Parties in Exploratory Operations at Objective Depth

A Non-Participating Party in an Exploratory Operation conducted on an Exploratory Well after it has reached its Objective Depth [except as provided for in this Article 10.2 (*Exploratory Operations at Objective Depth*)] is subject to Article 16.5.1.1 (*Non-Consent Exploratory Operations at Objective Depth*) and is relieved of the Costs and risks of that Exploratory Operation, except that a Non-Participating Party in that Exploratory Operation remains responsible for its Participating Interest Share of the Costs of plugging and abandoning the Exploratory Well, less and except all Costs of plugging and abandoning associated solely with the subsequent Exploratory Operation in which it was a Non-Participating Party.

1 **10.2.5 Participation in a Sidetrack or Deepening by a Non-Participating Party in**
 2 **an Exploratory Well at Initial Objective Depth**

3 If an Exploratory Well is drilled to its initial Objective Depth and a Non-
 4 Participating Party in that Exploratory Well becomes a Participating Party in an
 5 approved Sidetracking or Deepening under Article 10.2(c) or Article 10.2(d),
 6 that former Non-Participating Party shall become an Underinvested Party in an
 7 amount equal to its Non-Participating Interest Share of the Costs of that
 8 Exploratory Well prior to that Sidetracking or Deepening. The original
 9 Participating Parties in an Exploratory Well are Overinvested Parties in that
 10 amount. A former Non-Participating Party in an Exploratory Well that becomes
 11 a Participating Party in an approved Sidetracking or Deepening remains a Non-
 12 Participating Party in that Exploratory Well to initial Objective Depth until (a)
 13 its Underinvestment is eliminated under Article 16.9 (*Settlement of*
 14 *Underinvestments*), and (b) the Hydrocarbon Recoupment recoverable under
 15 Article 16.5.1 (*Non-Consent Exploratory Operations down to Objective Depth*
 16 *in the First Exploratory Well*), less the amount of the Underinvestment, has been
 17 recovered by the original Participating Parties. If a former Non-Participating
 18 Party becomes a Participating Party in more than one approved Sidetracking or
 19 Deepening in the same Exploratory Well, that former Non-Participating Party
 20 shall become an Underinvested Party only with regard to the first Sidetracking
 21 or Deepening it approves; however, that Underinvestment shall not be relieved
 22 by an Underinvested Party's subsequent participation.

23 **10.3 Permanent Plugging and Abandonment and Cost Allocation**

24 Except as otherwise provided in this Agreement, the permanent plugging and abandonment
 25 of an Exploratory Well that is located on an active lease and:

- 26 (a) is to be plugged due to mechanical difficulties or impenetrable conditions before the
 27 well has been drilled to its Objective Depth under Article 10.1.5 (b),
 28 (b) is to be plugged under Article 10.2 (*Exploratory Operations at Objective Depth*), or
 29 (c) has been previously temporarily abandoned under Article 10.2 (*Exploratory*
 30 *Operations at Objective Depth*)

31 and has not produced Hydrocarbons (other than as a result of Production Testing), requires
 32 the unanimous agreement of the Participating Parties. Approval to plug and abandon an
 33 Exploratory Well that has produced Hydrocarbons (other than as a result of Production

1 Testing) shall be governed by Article 18.1 (*Abandonment of Wells*). If a proposal to plug
2 and abandon an Exploratory Well receives the unanimous agreement of the Participating
3 Parties, the approved proposal binds all Parties. If any Participating Party fails to respond
4 within the applicable response period for a proposal to plug and abandon an Exploratory
5 Well, that Participating Party shall be deemed to have approved the plugging and
6 abandonment of that Exploratory Well. If a rig is on location, a proposal to plug and
7 abandon an Exploratory Well under either Article 10.3(a) or 10.3(b) does not receive
8 unanimous agreement, and if within twenty-four (24) hours (exclusive of Saturdays,
9 Sundays, and federal holidays) after Receipt of that proposal no other operation is proposed
10 (and subsequently approved) for the well by a Party entitled to make a proposal, the
11 Operator may nevertheless proceed to plug and abandon the Exploratory Well, and shall
12 give each Participating Party notice of that fact. If the proposal to plug and abandon an
13 Exploratory Well that has not produced Hydrocarbons (other than as a result of Production
14 Testing) does not receive approval by unanimous agreement, but the Operator, in its sole
15 opinion, deems the well bore not to be safe or in sound enough condition for it to perform
16 further operations, the Operator may nevertheless proceed to plug and abandon the
17 Exploratory Well, and shall give each Participating Party notice of that fact.

18 The Participating Parties in an Exploratory Well proposal shall pay all Costs of plugging
19 and abandoning the Exploratory Well, except all increased plugging and abandoning Costs
20 associated solely with a Non-Consent Operation approved under Article 10.2 (*Exploratory*
21 *Operations at Objective Depth*) or Article 6.2.2 (*Supplemental AFEs*). The Participating
22 Parties in that Non-Consent Operation are responsible for the increased plugging and
23 abandoning Costs attributable to that Non-Consent Operation.

24 **10.4 Conclusion of Exploratory Operations**

25 Except as provided in Article 10.1.5 (*AFE Overruns and Substitute Well*) after the earlier
26 of the Completion, temporary abandonment or permanent plugging and abandonment of
27 the first Producing Well and the release of the drilling rig from that Producing Well,
28 Exploratory Operations conclude, and all subsequent operations in the Unit Area are either
29 Appraisal Operations or Development Operations.

ARTICLE 11 – APPRAISAL OPERATIONS

11.1 Proposal of Appraisal Wells

After the conclusion of Exploratory Operations, any Party may propose drilling an Appraisal Well by giving notice of the proposal (along with the associated AFE and Well Plan) to the other Parties. Each proposed Appraisal Well requires approval by Election.

Each Non-Participating Party in an Appraisal Well will be subject to either an acreage forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-Consent Operations*).

11.1.1 Pre-Appraisal Well AFE Meeting

Prior to submitting an AFE for a new Appraisal Well (including any substitute well, except for a substitute well proposed while a rig is on the Unit Area), Operator shall call a meeting of the Parties entitled to an Election as to the contemplated new Appraisal Well or its substitute, if applicable, to share with said Parties the preliminary scope of the contemplated new Appraisal Well. Although Operator may change, modify or alter the preliminary scope of the contemplated new Appraisal Well subsequent to the meeting but prior to submission of the AFE associated therewith, as contemplated herein, the general items Operator will address at the meeting, at a minimum, shall consist of a preliminary well design, a preliminary rig selection/type and timing, a preliminary total estimated depth of the well, a preliminary Objective Depth criteria, a preliminary surface and bottomhole location(s) and a preliminary zone(s) of interest. Should a Non-Operator contemplate proposing an AFE for a new Appraisal Well (or its substitute, if applicable), said Non-Operator shall call a meeting consistent herewith.

11.1.2 Revision of Well Plan

Except as provided in Article 11.1.3 (*Automatic Revision of a Well Plan*), any revisions of the Well Plan or AFE for an Appraisal Well shall take place under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.2 (*Revision of Well Plan*).

11.1.3 Automatic Revision of the Well Plan

The Well Plan for an Appraisal Well shall automatically be revised under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.3 (*Automatic Revision of the Well Plan*).

1 **11.1.4 Timely Operations**

2 Except as provided below, drilling operations on an Appraisal Well shall be
3 commenced within two hundred and seventy (270) days after the end of the
4 period for the approval of the Appraisal Well. If the Operator, except for an
5 occurrence of Force Majeure, does not commence drilling operations on the
6 Appraisal Well within that two hundred and seventy (270) day period, the
7 approved Appraisal Well proposal shall be deemed withdrawn, with the effect
8 as if the Appraisal Well had never been proposed and approved, and then the
9 Non-Operating Parties may then select a substitute Operator under Article 4.2.2
10 (*Substitute Operator if Operator Fails to Commence Drilling Operations*).
11 Within thirty (30) days of the selection of the substitute Operator, the substitute
12 Operator shall propose the drilling of an identical Appraisal Well (except for any
13 necessary modifications resulting from a change in the drilling rig to be utilized
14 by the substitute Operator), and it shall commence drilling operations on that
15 well within two hundred and seventy (270) days after the end of the period for
16 the approval of that Well.

17 If an approved original or identical Appraisal Well proposal is deemed
18 withdrawn due to a failure to timely commence drilling operations on that well,
19 all Costs incurred, which are attributable to the preparation for, or in furtherance
20 of, that Appraisal Well, will be chargeable to the Participating Parties. Drilling
21 operations for an Appraisal Well under this Article 11.1.4 shall be deemed to
22 have commenced on the date the rig arrives on location or, if the rig is already
23 on location, the date when actual drilling operations for the approved Appraisal
24 Well are undertaken.

25 **11.1.5 AFE Overruns and Substitute Well**

26 Once an Appraisal Well is commenced, the Operator shall drill the well with due
27 diligence to its Objective Depth, subject to:

- 28 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental AFEs*);
- 29 (b) the Operator encountering mechanical difficulties, uncontrolled influx of
30 subsurface water, loss of well control, abnormal well or formation
31 pressures, pressured or heaving shale, granite or other practicably
32 impenetrable substances, or other similar conditions in the well bore or
33 damage to the well bore that, in the Operator's sole opinion, render further
34 well operations impractical; and

(c) the unanimous agreement of the Participating Parties to cease drilling an Appraisal Well before reaching Objective Depth.

If an Appraisal Well is abandoned due to the conditions described under Article 11.1.5(b), then any Participating Party in the abandoned Appraisal Well may, within sixty (60) days after abandonment of that Appraisal Well, propose the drilling of a substitute well for the abandoned Appraisal Well by giving notice of the proposal (along with the associated AFE and Well Plan) to all other Participating Parties in the abandoned Appraisal Well, and that proposal requires approval by Election of the Participating Parties in the abandoned Appraisal Well. Notwithstanding any contrary provision of Article 11.5 (*Conclusion of Appraisal Operations*), the substitute well shall be an Appraisal Well. The Well Plan for the substitute Appraisal Well shall be substantially the same as the abandoned Appraisal Well's Well Plan and shall also take into account the conditions that rendered further drilling of the abandoned Appraisal Well impractical.

Each Non-Participating Party in a substitute Appraisal Well or an approved supplemental AFE for an Appraisal Well will be subject to either an acreage forfeiture or Hydrocarbon Recoupment, as provided in Article 16 (*Non-Consent Operations*).

11.2 Appraisal Operations at Objective Depth

After an Appraisal Well has been drilled to such Objective Depth and all operations in the controlling AFE have been conducted or terminated (except temporary abandonment and permanent plugging and abandonment) and all logs and test results have been distributed to the Participating Parties, the Operator shall promptly notify the Parties entitled to Vote or make an Election (i.e., the Participating Parties) of its proposal to conduct subsequent operations in the well. Except for a proposal to permanently plug and abandon the well, the Operator's proposal shall include an associated AFE and a plan for the operation.

If the Participating Parties have secured the requisite approval to either:

- (i) Sidetrack said well, or
- (ii) Deepen said well,

and, provided that Article 16.4 (*Non-Consent Operations to Maintain Unit Area*) was not applicable to the drilling of that Appraisal Well, then, contingent upon the unanimous

1 approval of the Participating Parties in the approved Sidetrack or Deepening Operation, the
2 Operator shall notify each former Non-Participating Party of the proposal. Each former
3 Non-Participating Party may respond with an Election regarding such a proposal by
4 notifying the Operator of its Election within forty-eight (48) hours (exclusive of Saturdays,
5 Sundays, and federal holiday) after receiving the Operator's notice. Any former Non-
6 Participating Party making an Election to participate in the Deepening or Sidetracking of
7 an Appraisal Well shall be subject to Article 11.2.5.

8 The Operator's proposal shall be for one of the following operations:

- 9 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations
10 encountered prior to setting production casing;
- 11 (b) Sidetrack the well bore to core the formations encountered;
- 12 (c) Deepen the well to a new Objective Depth; provided, however, if in the Operator's
13 sole reasonable opinion a casing string is required to Deepen the well, then option
14 "d" shall have priority over Deepening the well to a new Objective Depth;
- 15 (d) Sidetrack the well, including the requisite plug back operations related thereto;
- 16 (e) conduct Production Testing;
- 17 (f) Complete the well
- 18 (g) conduct other operations on the well not listed;
- 19 (h) temporarily abandon the well; or
- 20 (i) permanently plug and abandon the well.

21 Notwithstanding any contrary provision in this Agreement, the Completion of an Appraisal
22 Well as a Subsequent Appraisal Operation shall require approval by the Vote of the
23 Participating Parties, and a Non-Participating Party in a Completion conducted on an
24 Appraisal Well after it has reached its Objective Depth is:

- 25 (i) subject to a Hydrocarbon Recoupment amount equal to its Non-Participating
26 Interest Share of the Costs of the Completion Operation multiplied by four hundred
27 percent (400%) in lieu of the Hydrocarbon Recoupment penalty set forth in Article
28 16.5.2 (*Non-Consent Appraisal Operations*), and

1 (ii) relieved of the Costs and risks of such Completion Operation, but remains
2 responsible for its Participating Interest Share of the Costs of plugging and
3 abandoning the Appraisal Well less and except the extra Costs of plugging and
4 abandoning associated solely with the Completion in which it was a Non-
5 Participating Party.

6 If the Appraisal Well is temporarily abandoned under (h), then any additional operation in
7 that well shall be proposed as a new well operation, and shall be deemed an Appraisal
8 Operation or Development Operation proposal, as applicable in accordance with the
9 definitions set forth herein. If the Operator fails to submit its proposal to the Participating
10 Parties within twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal
11 holidays) after receipt by the Participating Parties of all logs and test results from an
12 Appraisal Well, then any Participating Party may make a proposal. In that event, the
13 procedures in this Article 11.2 shall apply to that proposal, and any reference in this Article
14 11.2 to the "Operator's proposal" shall include a proposal made by a Participating Party.

15 **11.2.1 Response to Operator's Proposal**

16 A Participating Party may, within twenty-four (24) hours (exclusive of
17 Saturdays, Sundays, and federal holidays) of its Receipt of the Operator's
18 proposal, make a separate proposal (along with an associated AFE and a plan
19 for the operation, except if the proposal is to permanently plug and abandon the
20 well) for one of the operations in Article 11.2 (*Appraisal Operations at*
21 *Objective Depth*), and the Operator, immediately after the expiration of the
22 twenty-four (24) hour period for making a separate proposal shall provide the
23 Parties entitled to make an Election with a copy of all separate proposals so
24 made. If no separate proposal is made, the Parties entitled to make an Election
25 shall, within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal
26 holidays) following the latter of:

27 (a) Receipt of the Operator's proposal; or

28 (b) the commencement of Standby Charges,

29 make an Election on the Operator's proposal (except for a proposal to
30 permanently plug and abandon). If a separate proposal is made, the Parties
31 entitled to make an Election shall make an Election under the procedure in
32 Article 11.2.2 (*Response to Highest Priority Proposal*). If a proposal to
33 permanently plug and abandon the well is the only operation proposed, then the

1 approval and Cost allocation provisions of Article 11.4 (*Permanent Plugging*
2 *and Abandonment and Cost Allocation*) shall apply to that proposal. If Article
3 8.3 (*Second Opportunity to Participate*) or Article 8.4 (*Participation by Fewer*
4 *Than All Parties*), or both, apply to any Election in Article 11.2 (*Appraisal*
5 *Operations at Objective Depth*), then the response period in those articles shall
6 be twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal
7 holidays) instead of forty-eight (48) hours (exclusive of Saturdays, Sundays, and
8 federal holidays). Notwithstanding any contrary provision of this Agreement, if
9 one or more operations are proposed before the distribution of information from
10 the previously approved operation, then the response periods provided above
11 shall not begin until the Parties entitled to make an Election have received the
12 information from the previously approved operation.

13 **11.2.2 Response to Highest Priority Proposal**

14 If a separate proposal is made, each Party entitled to make an Election shall,
15 within twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal
16 holidays) following the latter of:

- 17 (a) Receipt from the Operator of a complete copy of all separate proposals;
18 (b) the commencement of Standby Charges,

19 make its Election on the highest priority proposal (except a proposal to
20 permanently plug and abandon the well). Article 11.2(a) has the highest priority,
21 and Article 11.2(i) has the lowest priority. If different depths or locations are
22 proposed for the same type of operation, preference shall be given to the
23 shallowest depth, or the location nearest to the existing well bore, as applicable.
24 If the proposal with the highest priority is approved, then the lower priority
25 proposals shall be deemed withdrawn. Once the approved operation is
26 completed, the Parties shall follow the procedure provided in Article 11.2
27 (*Appraisal Operations at Objective Depth*) for all other proposals for operations
28 in the well bore until such time as the well is Completed, temporarily abandoned
29 or permanently abandoned.

30 **11.2.3 Response on Next Highest Priority Proposal**

31 If the proposal with the highest priority is not approved, then the next highest
32 priority proposal shall be deemed the highest priority proposal and it shall be
33 subject to the approval procedure in Article 11.2.2 (*Response to Highest Priority*

1 *Proposal*). This process will continue until a proposal is approved to either
2 temporarily abandon or permanently plug and abandon an Appraisal Well.

3 **11.2.4 Non-Participating Parties in Appraisal Operations at Objective Depth**

4 A Non-Participating Party in an Appraisal Operation conducted on an Appraisal
5 Well after it has reached its Objective Depth [except as provided for in this
6 Article 11.2 (*Appraisal Operations at Objective Depth*)] is subject to Article
7 16.5.2 (*Non-Consent Appraisal Operations*) and is relieved of the Costs and
8 risks of that Appraisal Operation, except that a Non-Participating Party in that
9 Appraisal Operation remains responsible for its Participating Interest Share of
10 the Costs of plugging and abandoning an Appraisal Well, less and except all
11 Costs of plugging and abandoning associated solely with the subsequent
12 Appraisal Operation in which it was a Non-Participating Party.

13 **11.2.5 Participation in a Sidetrack or Deepening by a Non-Participating Party in**
14 **an Appraisal Well at Objective Depth**

15 If an Appraisal Well is drilled to its Objective Depth and a Non-Participating
16 Party in that Appraisal Well becomes a Participating Party in an approved
17 Sidetracking or Deepening under Article 11.2(c) or Article 11.2(d), that former
18 Non-Participating Party shall become an Underinvested Party in an amount
19 equal to its Non-Participating Interest Share of the Costs of that Appraisal Well
20 to its Objective Depth prior to that Sidetracking or Deepening. The original
21 Participating Parties in that Appraisal Well are Overinvested Parties in that
22 amount. A former Non-Participating Party in an Appraisal Well that becomes a
23 Participating Party in an approved Sidetracking or Deepening, remains a Non-
24 Participating Party in the Appraisal Well to initial Objective Depth until (a) its
25 Underinvestment is eliminated under Article 16.9 (*Settlement of*
26 *Underinvestments*), and (b) the Hydrocarbon Recoupment recoverable under
27 Article 16.5.2 (*Non-Consent Appraisal Operations*) less the Underinvestment,
28 has been recovered by the original Participating Parties. If a former Non-
29 Participating Party becomes a Participating Party in more than one approved
30 Sidetracking or Deepening in the same Appraisal Well, that former Non-
31 Participating Party shall become an Underinvested Party only with regard to the
32 first Sidetracking or Deepening it approves; however, that Underinvestment
33 shall not be relieved by an Underinvested Party's subsequent participation.

1 **11.3 Appraisal Well Proposals That Include Drilling Below the Deepest Producing**
2 **Reservoir**

3 Any Party may propose an Appraisal Well with an Objective Depth below the Deepest
4 Producing Reservoir, and in response to that well proposal each Party may in writing limit
5 its participation in the drilling of that Appraisal Well to the base of the Deepest Producing
6 Reservoir to be penetrated by that Appraisal Well. A Party who limits its participation in
7 an Appraisal Well to the base of the Deepest Producing Reservoir shall bear its
8 Participating Interest Share of the Cost and risk of drilling that Appraisal Well to the base
9 of the Deepest Producing Reservoir (including abandonment), and it shall be a Non-
10 Participating Party for the Deeper Drilling and shall be subject to Article 16.5.2 (*Non-*
11 *Consent Appraisal Operations*) in regard to drilling between those depths.

12 **11.4 Permanent Plugging and Abandonment and Cost Allocation**

13 Except as otherwise provided in this Agreement, the permanent plugging and abandonment
14 of an Appraisal Well that is located on an active lease and:

- 15 (a) is to be plugged due to mechanical difficulties or impenetrable conditions before the
16 well has been drilled to its Objective Depth under Article 11.1.5 (b),
- 17 (b) is to be plugged under Article 11.2 (*Appraisal Operations at Objective Depth*), or
- 18 (c) has been previously temporarily abandoned under Article 11.2 (*Appraisal*
19 *Operations at Objective Depth*)

20 and has not produced Hydrocarbons (other than as a result of Production Testing) requires
21 the unanimous agreement of the Participating Parties. Approval to plug and abandon an
22 Appraisal Well that has produced Hydrocarbons (other than as a result of Production
23 Testing) shall be governed by Article 18.1 (*Abandonment of Wells*). If a proposal to plug
24 and abandon an Appraisal Well receives approval by unanimous agreement, the approved
25 proposal binds all Parties. If any Participating Party fails to respond within the applicable
26 response period for a proposal to plug and abandon an Appraisal Well, that Participating
27 Party shall be deemed to have approved the plugging and abandonment of that Appraisal
28 Well. If a rig is on location and a proposal to plug and abandon an Appraisal Well under
29 either Article 11.4(a) or 11.4(b) does not receive approval by unanimous agreement, and if
30 within twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) from
31 Receipt of that proposal no other operation is proposed (and subsequently approved) for
32 the well by a Party entitled to make a proposal, the Operator may nevertheless proceed to
33 plug and abandon that Appraisal Well, and shall give each Participating Party notice of that

fact. If the proposal to plug and abandon an Appraisal Well that has not produced Hydrocarbons (other than as a result of Production Testing) does not receive approval by unanimous agreement, but the Operator, in its sole opinion, deems the well bore not to be safe or in sound enough condition for it to perform further operations, the Operator may nevertheless proceed to plug and abandon that Appraisal Well, and shall give each Participating Party notice of that fact.

The Participating Parties in an Appraisal Well proposal shall pay all Costs of plugging and abandoning that Appraisal Well, except all increased plugging and abandoning Costs associated solely with a Non-Consent Operation approved under Article 11.2 (*Appraisal Operations at Objective Depth*) or Article 6.2.2 (*Supplemental AFEs*). The Participating Parties in that Non-Consent Operation are responsible for the increased plugging and abandoning Costs attributable to that Non-Consent Operation.

11.5 Conclusion of Appraisal Operations

Upon the earlier of:

- (a) the approval of the conclusion of Appraisal Operations by Vote regardless of whether Appraisal Operations actually commenced; or
- (b) the point in time when no Appraisal Operation has been approved within a period of twelve (12) months from the rig release (or cessation of operations) from the previous operation, whether an Exploratory Operation or an Appraisal Operation; or
- (c) the Completion or abandonment whether permanent or temporary, of the first (1st) Appraisal Well which would qualify as a Producing Well, and the release of the rig from that Appraisal Well (including any substitute well for that Appraisal Well),

Appraisal Operations for this Development Phase shall conclude and all subsequent operations for:

- (i) this Development Phase, including operations on temporarily abandoned Exploratory Wells and/or Appraisal Wells, and
- (ii) any subsequent Development Phase, will be Development Operations.

However, if an Appraisal Operation is being conducted at the occurrence of either (a) or (b) above, Appraisal Operations for this Development Phase shall conclude when the well

bore in which the Appraisal Operation is being conducted is either Completed or abandoned, whether temporarily or permanently.

11.6 Operations Before the Approval of the Development Plan

After the occurrence of (a), (b), or (c) in Article 11.5 (*Conclusion of Appraisal Operations*) but before the approval of a Development Plan for this Development Phase, any Party may propose the drilling of an additional well as an Appraisal Well.

Unless Article 16.4 (*Non-Consent Operations to Maintain Unit Area*) applies to the proposal of that well, that proposal shall require the unanimous agreement of the Parties. Any substitute well for, and all operations at Objective Depth conducted in or through the well bore of that well shall be deemed Appraisal Operations, and shall be proposed, approved, and conducted accordingly.

ARTICLE 12 – DEVELOPMENT PHASES

12.1 Phased Development

In view of the Costs and scope of developing and producing Hydrocarbons from the Unit Area, a Party(ies) may undertake an initial Development Phase and one or more subsequent Development Phases in accordance with the procedures set forth herein. A separate Development Plan shall be prepared for each Development Phase, and each Development Plan shall be generated, approved, and implemented under this Article 12 (*Development Phases*). Each Development Phase may be comprised of as many as four stages – the Feasibility Stage, the Selection Stage, the Define Stage, and the Execution Stage. For each stage undertaken, subject to the provisions of this Article 12 (*Development Phases*), any Party may submit a proposal and an associated AFE for the Parties' approval. Each stage AFE shall cover all of the estimated Costs to be incurred during that stage, except for the Costs of drilling wells, including those of the Feasibility Team or Project Team.

12.2 Feasibility Team Proposal

The Feasibility Stage commences upon the approval of a proposal for the formation of a Feasibility Team and the Feasibility AFE. No Party may propose the formation of a Feasibility Team for a Development Phase until such time as any previously formed Feasibility Team for that Development Phase has terminated. For a period of three hundred and sixty-five (365) days from the conclusion of Exploratory Operations, the Operator has the exclusive right to propose the formation of a Feasibility Team and submit to the Parties a Feasibility AFE accompanied by a memorandum describing in detail the anticipated

1 scope of work to be undertaken by the Feasibility Team and third party contractors and/or
2 consultants during the Feasibility Stage, the estimated type and number of staff required to
3 complete that scope of work, the estimated duration of the Feasibility Stage, and the
4 estimated Costs of the Feasibility Stage. If the Operator does not propose the formation of
5 a Feasibility Team and submit the Feasibility AFE during its exclusive period, any Party
6 may propose the formation of a Feasibility Team and submit a Feasibility AFE.

7 The Feasibility Team will operate under the direction of the Operator. The employees of
8 the Operator and Non-Operators and the contractors and/or consultants, set forth in the
9 Feasibility AFE, shall initially compose the Feasibility Team. The Operator may, from
10 time to time, revise the membership of the Feasibility Team, at its sole discretion, as long
11 as the revisions are necessary to accomplish the scope of work set forth in the Feasibility
12 AFE. The Operator shall charge the Joint Account for the labor of the Feasibility Team
13 members in the same manner in which it charges the Joint Account for the labor of the
14 Project Team members.

15 Each Feasibility Team member remains an employee of its respective employer, and each
16 employer remains responsible for its employee's salaries and benefits, as well as
17 maintaining worker's compensation insurance for its employee. Accordingly, each
18 employer will continue to administer the compensation, benefits, allowances, and careers
19 of its employees on the Feasibility Team. However, Feasibility Team members will receive
20 team assignments and general supervision from the Operator in connection with their day-
21 to-day work. An individual on a Feasibility Team will, insofar as it is possible and
22 consistent with the needs of his or her employer, serve on the Feasibility Team for the
23 duration of the Feasibility Team, unless that individual is designated a temporary
24 Feasibility Team member by his or her employer or the Operator. If a Feasibility Team
25 member is designated a temporary Feasibility Team member by his or her employer or the
26 Operator, that Feasibility Team member will leave the Feasibility Team upon completion
27 of (a) the term designated by his or her employer for his or her service on the team or (b)
28 the specific task or portion of the Feasibility Team's work assigned to that member by the
29 Operator.

30 The Feasibility Team shall prepare an in-depth report containing its analyses of all of the
31 development scenarios it considered and its findings as to the existence of at least one
32 development scenario for a Producing Well on the Unit Area, which is technologically and

1 economically feasible, and shall present a copy of that report to each of the Participating
2 Parties as soon as it is completed.

3 **12.2.1 Feasibility AFE Approval**

4 A Feasibility AFE requires approval by Election.

5 A Non-Participating Party in the Feasibility AFE is subject to Article 16.5.3
6 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection*
7 *AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production*
8 *Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well*
9 *Operation AFEs*).

10 **12.2.2 Feasibility Team and Feasibility Stage Conclusion**

11 The Feasibility Team and the Feasibility Stage terminate immediately after (a)
12 the Feasibility Team has (i) completed the scope of work in the Feasibility AFE
13 and its supplemental AFEs and (ii) presented to the Participating Parties the
14 report referred to in Article 12.2 (*Feasibility Team Proposal*) or (b) the
15 Participating Parties Vote to terminate the Feasibility Team prior to the
16 occurrence of both of those events.

17 **12.3 Commencement of the Selection Stage**

18 The Selection Stage commences upon the approval of the Selection AFE.

19 **12.3.1 Proposal of a Project Team**

20 If a Feasibility AFE is approved, the Operator has an exclusive right to submit a
21 Selection AFE for the Parties' review and approval for a period of one hundred
22 and twenty (120) days from the later of:

- 23 (i) the conclusion of the Feasibility Stage; or
24 (ii) the earlier of rig release from the first (1st) Appraisal Well which would
25 qualify as a Producing Well or the conclusion of Appraisal Operations.

26 If a Feasibility AFE is not approved, the Operator has an exclusive right to
27 submit a Selection AFE for a period of one hundred and eighty (180) days from
28 the earlier of:

- 29 (i) rig release from the first (1st) Appraisal Well which would qualify as a
30 Producing Well; or

1 (ii) the conclusion of Appraisal Operations.

2 The Selection AFE may call for the formation of a Project Team. It shall be
3 accompanied by a memorandum describing in detail the anticipated scope of
4 work to be undertaken during the Selection Stage, the estimated type and number
5 of staff required to complete that scope of work, the estimated duration of the
6 Selection Stage, and the estimated Costs of the Selection Stage. If the Operator
7 does not submit a Selection AFE during its exclusive period referred to in this
8 paragraph, any Party may submit a Selection AFE.

9 If the Operator does not submit a Selection AFE during its exclusive period
10 referred to in this paragraph, any Party may submit a Selection AFE. .

11 If the Selection AFE proposes the formation of a Project Team, the formation
12 and administration of that Project Team shall be handled under Exhibit "G."

13 The Operator shall directly charge the Joint Account for all Costs associated
14 with the Project Team, including those of Affiliates, for which the Operator is
15 internally billed. The components of those Costs may include, but are not
16 limited to:

- 17 a) Digital Business
- 18 b) Accounting
- 19 c) Building Services and Building and Grounds Maintenance
- 20 d) Human Resources
- 21 e) Procurement
- 22 f) Government and Public Affairs
- 23 g) Health, Safety and Environment
- 24 h) Security
- 25 i) Audit
- 26 j) Tax

1 k) Crisis Management

2 l) Environmental Compliance

3 n) Marketing of Oil and Gas Production

4 All other Project Team Costs shall be handled under Exhibit "C."

5 No Party may propose the formation of a Project Team for a Development Phase
6 until such time as a previously formed Project Team for that Development Phase
7 has terminated.

8 **12.3.2 Selection AFE Approval**

9 A Selection AFE requires approval by Election.

10 A Non-Participating Party in a Selection AFE is subject to Article 16.5.3 (*Non-*
11 *Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection*
12 *AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production*
13 *Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well*
14 *Operation AFEs*).

15 **12.4 Proposal of a Development Plan**

16 The Operator has the exclusive right to submit a Development Plan for the Parties' review
17 and approval for a period of three hundred and sixty-five (365) days from the later of:

18 (i) commencement of the Selection Stage; or

19 (ii) conclusion of Appraisal Operations.

20 If the Operator has begun preparation of a Development Plan during the first two hundred
21 and seventy (270) days of such three hundred and sixty-five (365) day period, but the
22 Development Plan will not be completed and submitted by the end of the Operator's
23 exclusive period, then the Operator may request an extension of the exclusive period to
24 allow completion of the work in progress. Any request for extension shall include a report
25 of the progress to date and specify a date for submission of the Development Plan not more
26 than three (3) months from the expiration of the exclusive submission period. The Parties
27 shall not arbitrarily or unreasonably refuse a request for extension of the Operator's
28 submission.

1 **12.4.1 Content of the Development Plan**

2 A Development Plan shall contain at a minimum the following information:

3 (a) **Development System:** Description of the Development System including:

4 (i) the type of Production System proposed, for example, tension leg
5 well jacket, floating production system, including the Production
6 System's location, configuration (number of well slots or subsea
7 tiebacks), and production capacity;

8 (ii) the Facilities and their daily processing capacity for Hydrocarbon
9 production and the gathering system necessary to transport the
10 Hydrocarbons from the well heads to one or more interconnects
11 with the pipeline or offtake point servicing the Unit Area;

12 (iii) a projected time schedule for designing, contracting, fabricating,
13 constructing, or otherwise acquiring, transporting, and installing
14 the Development System;

15 (iv) the estimated date of initial Hydrocarbon production and the
16 estimated initial daily rate of Hydrocarbon production;

17 (v) the estimated Costs (not in the form of an AFE) of the
18 Development System;

19 (vi) all proposed hydrate or paraffin control systems or techniques,
20 method of pressure maintenance, or enhanced recovery plan;

21 (vii) a description of the proposed well Completion techniques, that is,
22 dual versus single; and

23 (viii) The equipment and space on, and the weight and the buoyancy of,
24 the Development System, which are required to make the
25 enhanced recovery and pressure maintenance plans and objectives
26 referred to in Article 12.4.1(j)(iii)(D) possible;

27 (b) **Producible Reservoirs:** A description of the Hydrocarbon- bearing
28 geological formations expected to be developed under the Development
29 Plan along with the area and depth of sands or reservoirs to be developed
30 by the Production System;

- 1 (c) **Recoverable Reserves and Production Profile:** An estimate of
2 recoverable reserves for the proposed Development Plan and a schedule
3 of the estimated daily rate of Hydrocarbon production thereafter;
- 4 (d) **Pre-drilling Operations:** A description of pre-drilling operations, if any,
5 planned in support of later development, including an estimate of the
6 timing, Cost, and location of each pre-drilling operation;
- 7 (e) **Development Wells:** A description of drilling plans for all Development
8 Wells in the Development Plan and the Completion plans for all
9 temporarily abandoned Exploratory Wells or temporarily abandoned
10 Appraisal Wells that are to be completed and all Development Wells in
11 the Development Plan, including an estimate of the timing, Cost, and
12 surface and bottomhole location of each well;
- 13 (f) **Tieback Operations:** If the Development Plan requires the tieback or use
14 of Offsite Host Facilities, a commitment from the owner of that Offsite
15 Host Facilities to handle or process Hydrocarbons, the amount of all
16 tariffs, processing or other fees the owner of that Offsite Host Facilities
17 will charge the Participating Parties to handle or process Hydrocarbons,
18 and the guaranteed capacity on the Offsite Host Facilities for the
19 Hydrocarbons;
- 20 (g) **Define AFE:** An AFE containing the estimated Costs of the Define Stage,
21 accompanied by a memorandum describing in detail the anticipated scope
22 of work to be undertaken during the Define Stage, the estimated type and
23 number of staff required to complete that scope of work, the estimated
24 duration of the Define Stage, and the estimated Costs of the Define Stage;
25 if a Project Team was not formed during the Selection Stage, the proposing
26 Party may submit, along with the Define AFE, a proposal for the formation
27 of a Project Team accompanied by a memorandum similar to the one
28 referred to in Article 12.3.1 (*Proposal of a Project Team*);
- 29 (h) **Field Operating Scheme:** A description of the field operating scheme,
30 its method, requirements, expected frequencies of intervention, and Costs;
- 31 (i) **Field Abandonment:** A description of field abandonment plan (if
32 applicable);

- 1 (j) **Reservoir Plan:** A reservoir plan that provides strategies, objectives, and
2 methods for developing, managing, and depleting each Producing
3 Reservoir during its producible life and that includes, but is not limited to:
- 4 (i) an estimate of the number of wells slots dedicated to each
5 reservoir, including the planned number of producers and
6 injectors;
- 7 (ii) the planned bottomhole locations and timing of each anticipated
8 well for each Producing Reservoir;
- 9 (iii) a reservoir management and depletion strategy for each Producing
10 Reservoir addressing issues that include, but are not limited to:
- 11 (A) estimates of oil and gas in place;
- 12 (B) reservoir rock and fluid characteristics;
- 13 (C) depletion mechanism;
- 14 (D) enhanced recovery and pressure maintenance plans and
15 objectives;
- 16 (E) reservoir surveillance programs (for example, cased-hole
17 logging, static pressures) and their objectives;
- 18 (F) well performance goals (for example, target production
19 rates, target injection rates, maximum rates or drawdown
20 limits, maximum GOR, maximum water cut, gas-lift
21 targets);
- 22 (G) reservoir performance goals (for example, target pressures
23 or pressure profiles, target voidage replacement ratios, gas
24 cap maintenance goals); and
- 25 (H) other relevant information;
- 26 (k) **Disposal Wells:** The estimated Cost of disposal wells, if applicable;

(l) **Hydrocarbon Transmission System:** The type of Hydrocarbon transmission system to be made available to the Participating Parties (for example, pipeline versus barge); and

(m) **Other Data:** Provided such information is available, any other information reasonably necessary to perform an evaluation of the technical and economic feasibility of the Development System provided for in the Development Plan.

12.5 Development Plan Approval

12.5.1 Unanimous Approval of a Development Plan

The Operator has ninety (90) days after submittal of its Development Plan to obtain the unanimous agreement of the Parties on:

(a) the Development Plan submitted during its exclusive period set forth in Article 12.4 (*Proposal of a Development Plan*); or

(b) the latest amended version of that plan which has been the result of comments by, or discussions among, the other Parties or the Project Team, if one exists, and the Operator (the “Latest Amended Version”). A “Latest Amended Version” shall also include the latest amended version of another Party’s plan which has been the result of comments by, or discussions among, the other Parties or the Project Team, if one exists.

12.5.2 Approval of a Development Plan by Vote

For the purposes of this Article 12.5.2, if more than one (1) Party submits a Development Plan, each Development Plan shall be considered for approval by the Parties in the order in which they were received by the Parties. If:

(a) the Operator fails within the ninety (90) day period in Article 12.5.1 (*Unanimous Approval of a Development Plan*) to gain the unanimous agreement of the Parties on its Development Plan or its Latest Amended Version, whichever is applicable; or

(b) the Operator fails to submit a Development Plan during its exclusive period set forth in Article 12.4 (*Proposal of a Development Plan*),

1 any Party may submit a Development Plan and an AFE for the actual Costs it
2 incurred in order to generate that Development Plan, and the Parties have ninety
3 (90) days in which to approve by Vote:

4 (i) the Operator's Development Plan or its Latest Amended Version,
5 whichever is applicable if any, or

6 (ii) another Party's Development Plan or its Latest Amended Version,
7 whichever is applicable if any, and its associated AFE.

8 No new proposed Development Plan may be submitted during the last sixty (60)
9 days of the ninety (90) day period to approve a Development Plan by Vote.

10 **12.5.3 Approval of a Development Plan if One is Not Approved by Vote**

11 For the purposes of this Article 12.5.3, Development Plans shall be Voted on by
12 the Parties simultaneously. If no Development Plan, or its Latest Amended
13 Version, whichever is applicable, is approved by Vote during the ninety (90) day
14 period in Article 12.5.2 (*Approval of a Development Plan by Vote*), and if:

15 (a) there is only one (1) Development Plan, or its Latest Amended Version,
16 whichever is applicable, submitted, then that Development Plan, or its
17 Latest Amended Version, whichever is applicable, shall be deemed
18 approved;

19 (b) there are two (2) or more Development Plans, or Latest Amended
20 Version(s), whichever is applicable, submitted, then the Development
21 Plan, or the Latest Amended Version, whichever is applicable, that
22 receives the largest affirmative Voting interest shall be deemed approved;
23 or

24 (c) two (2) or more competing Development Plans, or Latest Amended
25 Version(s), whichever is applicable, , but two (2) or more competing
26 Development Plans, or Latest Amended Version receive an equal largest
27 affirmative Voting Interest, then:

28 (i) the Development Plan, or its Latest Amended Version, whichever is
29 applicable, that receives an equal largest affirmative Voting interest,
30 and for which the Operator affirmatively Votes of shall be deemed
31 approved; or

(ii) if no Development Plan, or its Latest Amended Version, whichever is applicable, with an equal largest affirmative Voting interest receive the affirmative Vote of the Operator, then such Development Plan, or such Latest Amended Version, whichever is applicable, first submitted, and which received such equal largest affirmative Voting interest shall be deemed approved.

12.5.4 Approved Development Plan

Each Participating Party in an approved Development Plan also agrees or Votes to participate in its Define AFE, the AFE referred to in Article 12.5.2 (*Approval of a Development Plan by Vote*), if applicable, and the formation of a Project Team during the Define Stage, if applicable. If the Parties do not approve a Selection AFE and do not form a Project Team during the Selection Stage and if the Operator's Development Plan or Latest Amended Version, whichever is applicable, is approved, the Operator shall directly charge the Joint Account the actual Costs it incurred in order to generate and submit the Operator's Development Plan or Latest Amended Version. If Appraisal Operations have not previously concluded, then, upon the approval of the Development Plan or Latest Amended Version, whichever is applicable, the Selection Stage concludes and Appraisal Operations are deemed concluded; provided, however, if an Appraisal Operation is being conducted when the Development Plan is approved, Appraisal Operations shall be deemed concluded when the well bore in which the Appraisal Operation is being conducted is either temporarily or permanently abandoned. Any Non-Participating Party in the approved Development Plan's Define AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well Operation AFEs*).

12.6.1 Long Lead Development System AFEs

After the conclusion of the Selection Stage, in order to facilitate the early and orderly commencement of the Execution Stage, the Operator has the right, prior to the approval of the Execution AFE, to submit AFEs ("Long Lead Development System AFEs") for:

- (a) the acquisition of long lead-time items for the Development System ("Long Lead Development System Items");

(b) preliminary activities related to the fabrication, transportation or installation of the Development System; or

(c) any other activity necessary to assist the Operator in the implementation of the Development Plan.

A Long Lead Development System AFE, whose total estimated Cost when combined with the estimated Cost of all approved Long Lead Development System AFEs, does not exceed fifty million dollars (\$50,000,000), requires approval by Vote of the Participating Parties in the Development Plan. A Long Lead Development System AFE, whose total estimated Cost when combined with the estimated Cost of all approved Long Lead Development System AFEs exceeds fifty million dollars (\$50,000,000), requires approval by the unanimous agreement of the Participating Parties in the Development Plan. Any Non-Participating Party in a Long Lead Development System AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well Operation AFEs*).

12.6.2 Non-Participating Parties in the Execution AFE Who Have Previously Approved Long Lead Development System AFEs

If a Party, who had Voted for or was in unanimous agreement with the other Participating Parties in a Long Lead Development System AFE, does not approve the Execution AFE for which such Long Lead Development System Items were procured, the Operator shall reimburse that Party its Participating Interest Share of the Costs of those Long Lead Development System Items within thirty (30) days following the approval of the Execution AFE; provided, however, that Party's share of those Costs shall be included in the calculation of any Hydrocarbon Recoupment, if applicable, to which it is subject to in accordance with Article 16 (*Non-Consent Operations*). The Operator shall invoice the Participating Parties in the Execution AFE for their proportionate share of the reimbursement under this Article 12.6.1 in accordance with Exhibit "C."

12.6.2 Disposition of Long Lead Development System Items

Notwithstanding the provisions of Exhibit "C" or Article 3.1 (*Exhibits*) to the contrary, the Participating Parties in the Execution AFE, for which Long Lead Development System Items were procured, shall approve by Vote the disposition of such Long Lead Development System Items if they are not

utilized for the Development System. If the disposition is approved, the disposition will be binding on all Participating Parties in the Execution AFE. The disbursement of the proceeds realized from the disposition of those Long Lead Development System Items shall take place in accordance with Exhibit "C."

12.7 Define Stage and Execution Stage

The Define Stage commences upon the approval of the Development Plan.

12.7.1 Execution AFE

The Operator has an exclusive period of one hundred and eighty (180) days from the commencement of the Define Stage to submit an Execution AFE, which conforms with the Development Plan approved during the Selection Stage to all Parties for approval by Election. The Execution AFE shall not include any Cost estimates or AFEs for Development Wells. If the Operator does not submit the Execution AFE during its exclusive period, any Party may submit an Execution AFE, which conforms with the approved Development Plan, and an AFE for the actual Costs it has incurred to generate the Execution AFE. If a Project Team was not formed during the Selection Stage or the Define Stage, the proposing Party may submit as a part of the Execution AFE a proposal for the formation of a Project Team accompanied by a memorandum similar to the one referred to in Article 12.3.1 (*Proposal of a Project Team*).

12.7.2 Approval of an Execution AFE and Commencement of the Execution Stage

By Electing to participate in an Execution AFE, each Participating Party in an approved Execution AFE also Elects to participate in (a) the AFE for the actual Costs incurred by the proposing Party in order to generate the approved Execution AFE, referred to in Article 12.7.1 (*Execution AFE*), if applicable, and (b) the formation of a Project Team during the Execution Stage, if applicable. If the Parties do not form a Project Team during the Selection Stage or the Define Stage and if the Operator's Execution AFE is approved, the Operator shall directly charge the Joint Account the actual Costs it incurred in order to generate and submit the Execution AFE. The Define Stage concludes and the Execution Stage commences upon the approval of the Execution AFE. A Non-Participating Party in the Execution AFE for the initial Development System is subject to Article 16.2 (*Acreage Forfeiture Provisions*).

12.7.3 Minor Modifications to Development Plans

In implementing a Development Plan, the Operator shall advise the Participating Parties of its own progress and that of the Project Team, if one exists. As additional information becomes available, the Operator may, prior to the installation of the Development System, make minor modifications to the Development Plan without the approval of the Participating Parties if those minor modifications are both reasonable and prudent. For purposes of this paragraph, a minor modification is

- (a) a modification, which (i) (A) is proposed prior to the commencement of the Execution Stage and does not cause the estimated Cost of the Define AFE to increase by more than ten percent (10%), or (B) is proposed after the commencement of the Execution Stage and does not cause the estimated Cost of the Execution AFE to increase by more than ten percent (10%), and (ii) is not a major modification as defined in Article 12.7.4 (*Major Modifications to Development Plans*); or
- (b) a modification that is necessary for health, safety, or environmental reasons or regulatory requirements and does not cause the estimated Cost of the Execution AFE to increase by more than ten percent (10%), even if that modification constitutes a major modification as defined in Article 12.7.4 (*Major Modifications to Development Plans*).

The “estimated Cost of the Execution AFE” is the total dollar amount of the Execution AFE and all approved Long Lead Development System AFEs. If the Operator exercises its discretionary right to make a minor modification for health, safety, or environmental reasons or regulatory requirements, the Operator shall give each Participating Party in the Development Plan written notice of that fact. A minor modification shall not materially change the risk or timing of the Development Plan and is binding on all the Participating Parties in the Development Plan.

12.7.4 Major Modifications to Development Plans

A major modification shall be deemed to have occurred when:

- (a) the type of Production System, for example, tension leg well, jacket floating production system, is to be changed; or

- (b) the number of well slots of the Production System is to be changed by at least twenty-five percent (25%);
- (c) the type of Hydrocarbon transmission system is changed (for example, pipeline versus barge);
- (d) the overall Cost of the Development System is to be increased or decreased by twenty percent (20%) or more;
- (e) the initial selection of the location of the Production System is to be changed and the corresponding difference in water depth changes by more than five thousand feet (5,000') laterally in any direction;
- (f) the initial daily production processing capacity of the Facilities is to be changed by at least twenty-five percent (25%);
- (g) the number of Development Wells is to be increased or decreased by at least twenty percent (20%);
- (h) the proposed hydrate or paraffin control system or technique, pressure maintenance system, or enhanced recovery plan is to be changed;
- (i) the proposed number of well Completions per wellbore, that is, dual versus single, is to be changed;
- (j) the timing of the installation of the Production System or the timing of initial Hydrocarbon production from the Production System is to be changed by more than one hundred and fifty (150) days;
- (k) in the case of a tieback to an Offsite Host Facility or a pre-existing Development System, the gathering and pipeline system necessary to transport the Hydrocarbons from the wellheads to an Offsite Host Facility or a pre-existing Development System, as provided in the Development Plan, is to be changed;
- (l) the estimated capital expenditures in any calendar year are to be increased by at least thirty percent (30%) of the project's estimated total gross capital expenditures; or
- (m) the Operator proposes not to complete a Development Plan.

1 The “overall Cost of the Development System” is the total dollar amount of the
2 Execution AFE and all approved Long Lead Development System AFEs.

3 **12.7.5 Major Modifications to Development Plans Prior to the Approval of the**
4 **Execution AFE**

5 Whenever a major modification to a Development Plan is proposed during the
6 Define Stage (prior to the approval of the Execution AFE), the Operator shall
7 furnish the Participating Parties in the Development Plan with the proposed
8 modification to the Development Plan (and associated AFEs). That major
9 modification shall require approval by unanimous agreement of the Participating
10 Parties in the Development Plan. If that major modification is approved, the
11 Operator shall immediately provide the modified Development Plan (and
12 associated AFEs) to each Non-Participating Party in the Development Plan.
13 That Non-Participating Party has the right for a period of thirty (30) days, after
14 Receipt of the modified Development Plan (and associated AFEs), in which to
15 notify the Operator in writing that it will participate in the modified
16 Development Plan (and associated AFEs). If that Non-Participating Party
17 participates in the modified Development Plan, it shall be an Underinvested
18 Party in an amount equal to its Non-Participating Interest Share of the actual
19 Costs incurred on activities associated with the original Development Plan (and
20 associated AFEs).

21 **12.7.6 Major Modifications to Development Plans After the Approval of the**
22 **Execution AFE**

23 Whenever a major modification to a Development Plan is proposed during the
24 Execution Stage (after the approval of an Execution AFE) and prior to the
25 installation of the Development System, the Operator shall furnish the
26 Participating Parties in the Execution AFE with the proposed modification to the
27 Development Plan (and associated AFEs). That major modification shall require
28 unanimous agreement of the Participating Parties in the Execution AFE. If that
29 major modification is as provided in Article 12.7.4 (a), (c), (d), (f), (g), (j), (k) or
30 (m), and is approved, the Operator shall immediately provide the modified
31 Development Plan (and associated AFEs) to each Non-Participating Party in the
32 Execution AFE. For a period of thirty (30) days after Receipt of the modified
33 Development Plan (and associated AFEs), the Non-Participating Party may notify
34 the Operator in writing that it will participate in the modified Development Plan
35 (and associated AFEs). If that Non-Participating Party participates in the

1 modified Development Plan, it shall be an Underinvested Party in an amount
2 equal to its Non-Participating Interest Share of the actual Costs incurred on
3 activities associated with (a) the Execution AFE and (b) the original Development
4 Plan (and associated AFEs) if it did not participate in that Development Plan.
5 Within thirty (30) days of the elimination of the Underinvestment, the
6 Participating Parties in the Execution AFE for the initial Development Phase shall
7 deliver to that Non-Participating Party an assignment of one hundred percent
8 (100%) of its former Working Interest in the Unit Area, the wells therein and
9 production therefrom. If the Execution AFE was for a subsequent Development
10 Phase, the Non-Participating Party shall not be subject to Article 16.5.5 (*Non-*
11 *Consent Subsequent Development System and Additional Facilities*) in regard to
12 that AFE.

13 **12.7.7 Approval of Major Modifications**

14 If the major modification of the Development Plan is approved, the Development
15 Plan (and associated AFEs) shall be deemed modified, and the Operator shall
16 carry out the modified Development Plan. If a major modification is not
17 approved, the Operator shall continue to implement the Development Plan as it
18 was before the proposed major modification.

19 **12.7.8 Termination of a Development Plan**

20 A Development Plan terminates if (a) the Execution AFE for that Development
21 Plan is not approved by Election, (b) the Participating Parties in the Define Stage
22 or in the Execution AFE unanimously agree to terminate the Development Plan,
23 or (c) the fabrication or acquisition of the Development System is not commenced
24 within the time frame provided in Article 12.7.9 (*Timely Operations for*
25 *Development Systems*).

26 **12.7.8.1 Termination Prior to Execution AFE Approval**

27 The Costs, risks, and liabilities of generating and implementing a
28 Development Plan that is terminated before its associated Execution
29 AFE has been approved by Election shall be borne by the Parties who
30 participated in the Define AFE and its supplemental AFEs, if any.

31 **12.7.8.2 Termination After Execution AFE Approval**

32 The Costs, risks, and liabilities of generating and implementing a
33 Development Plan that is terminated after its associated Execution
34 AFE has been approved by Election shall be borne by the

1 Participating Parties in the Execution AFE and its supplemental
2 AFEs, if any.

3 **12.7.9 Timely Operations for Development Systems**

4 The Operator shall commence or cause to be commenced the fabrication or
5 acquisition of a Development System (a) one hundred and eighty (180) days
6 after the end of the period for Elections of the Execution AFE or (b) ninety (90)
7 days prior to the date the Operator is required to commence that fabrication or
8 acquisition under an SOP or Unit Plan of Operations, whichever is earlier. If
9 the Operator, except for an occurrence of Force Majeure, fails to commence the
10 fabrication or acquisition of a Development System within the applicable time
11 period set forth above in this Article 12.7.9, the Non-Operating Parties may then
12 select a successor Operator under Article 4.5 (*Selection of Successor Operator*).
13 Within ninety (90) days of the selection of the successor Operator, the successor
14 Operator shall commence the fabrication or acquisition of a Development
15 System in the approved Development Plan. The fabrication or acquisition of a
16 Development System commences on the date the first major fabrication contract
17 for the Development System is awarded or the date the purchase contract for a
18 Development System is executed.

19 **12.8 Post-Production Project Team AFEs**

20 The Execution Stage concludes upon the first production of Hydrocarbons from the
21 Development System. At least sixty (60) days, but not more than one hundred and twenty
22 (120) days, prior to the first production of Hydrocarbons from the Development System,
23 the Operator may propose for approval by Vote the continuance of the Project Team, if one
24 exists, on a much smaller scale, or the formation of the Project Team, if one does not exist,
25 in order to assist the Operator in the drilling of additional Development Wells approved by
26 the Parties, de-bottlenecking the Development System, ramping up Hydrocarbon
27 production, maximizing the recovery of Hydrocarbons during the Development Phase and
28 activities related thereto. With its proposal, the Operator shall include an initial Post-
29 Production Project Team AFE accompanied by a memorandum similar to the one described
30 in Article 12.3.1 (*Proposal of Project Team*).

31 At least forty-five (45) days, but not more than ninety (90) days, prior to the date on which
32 the Operator anticipates the scope of work set forth in its original proposal for the
33 continuance or formation of the Project Team and its associated AFE and memorandum to
34 be completed, the Operator may propose for approval by Vote of the Parties the further

continuanace of the Project Team to assist the Operator in reservoir management and production optimizing activities other than contemplated under Article 12.11 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*). With that proposal, the Operator shall include a second Post-Production Project Team AFE accompanied by a memorandum similar to the one described in Article 12.3.1 (*Proposal of Project Team*). The administration of the Project Team during the period that it carries out the scope of work referred to in this Article 12.8 shall be handled under Exhibit "G." The Costs of the Project Team will be handled as they are under Article 12.3.1 (*Proposal of Project Team*). A Non-Participating Party in either or both of the two Post-Production Project Team AFEs is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well Operation AFEs*).

12.9 Subsequent Development Phases

At any time after the installation of the initial Development System for the initial Development Phase, any Participating Party may pursue a subsequent Development Phase and the installation of a subsequent Development System, as set forth herein.

12.9.1 Proposal of a Subsequent Development Phase

If a subsequent Development Phase is approved, the procedures specified in this Article 12 (*Development Phases*) shall apply to the proposal of the subsequent Development Phase.

12.9.2 Execution AFE in a Subsequent Development Phase

Each Non-Participating Party in an Execution AFE for a subsequent Development Phase is subject to the non-consent provisions in Article 16.5.5 (*Non-Consent Subsequent Development System and Additional Facilities*) or Article 16.4 (*Non-Consent Operations to Maintain Unit Area*), but not Article 16.2.2 (*Execution AFE*). Although a Non-Participating Party in an Execution AFE for a subsequent Development Phase may retain its Working Interest in the Unit Area, that Party will only be entitled to Hydrocarbon production from the subsequent Development Phase, in which it did not participate, after it has satisfied the non-consent provisions in Article 16.5.5 (*Non-Consent Subsequent Development System and Additional Facilities*). A Non-Participating Party in a subsequent Development Phase shall not unreasonably interfere with any activities or operations in that subsequent Development Phase. In all events, the

1 Participating Parties in the Execution AFE for a subsequent Development Phase
2 shall control the sequence of, and shall conduct, all activities and operations in
3 that subsequent Development Phase.

4 **12.10 Access to Existing Facilities**

5 A Participating Party in a subsequent Development Phase may propose to access the
6 Facilities installed for a previous Development Phase in accordance with Article 14
7 (*Facilities and Gathering Systems*). The proposal shall require approval by Vote of the
8 Participating Parties in the previous Development Phase and shall include the basic terms
9 under which the access is to be granted. If the proposal is approved, it shall be incorporated
10 into a formal "Facilities Use and Production Handling Agreement" and shall bind all
11 Parties.

12 **12.11 Enhanced Recovery and/or Pressure Maintenance Program Proposals**

13 Any Party may propose the formation of a Project Team separate and apart from any
14 Project Team already in existence for the purpose of assisting the Operator in designing an
15 enhanced recovery and/or pressure maintenance program for a particular Development
16 Phase by submitting to the Parties for approval by Election an Enhanced Recovery Project
17 Team AFE accompanied by a memorandum similar to the one described in Article 12.3.1
18 (*Proposal of Project Team*). Any Non-Participating Party in that Enhanced Recovery
19 Project Team AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical*
20 *Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development*
21 *System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team*
22 *AFEs or Long Lead Well Operation AFEs*). The formation and administration of a Project
23 Team for an enhanced recovery and/or pressure maintenance program will be handled
24 under Exhibit "G." The Costs of the Project Team will be handled as they are under Article
25 12.3.1 (*Proposal of Project Team*). After the Operator has designed the enhanced recovery
26 and/or pressure maintenance program with the assistance of that Project Team, the
27 Operator may submit an enhanced recovery and/or pressure maintenance program proposal
28 and AFE to the Parties for approval by Vote. The program proposal and AFE shall contain
29 sufficient detail to allow the Parties to adequately evaluate the scope, timing, Costs, and
30 benefits of the proposed program and AFE. If approved, that proposal and AFE will be
31 binding on all of the Participating Parties in the Execution AFE for that Development
32 Phase, and the Operator shall commence the program at the Cost and risk of those Parties.

ARTICLE 13 – DEVELOPMENT OPERATIONS

13.1 Proposal of Development Wells and Development Operations

It is the intent of the Parties to proceed with the development of the Unit Area under an approved Development Plan. Development Wells shall be subject to separate AFEs.

Once a Development Well has been completed and placed on production, the Participating Parties in that well must unanimously agree to allow any Party to conduct a Non-Consent Operation in that well, unless that well becomes incapable of producing in paying quantities. A proposal to conduct Development Operations in a Producing Reservoir requires the unanimous agreement of the Parties, unless the proposing Party designates the Producing Reservoir as an Objective Depth or Completion zone in the proposal.

13.1.1 Proposal of Development Wells Included in a Development Plan

Subject to Article 13.1 (*Proposal of Development Wells and Development Operations*), any Participating Party in a Development Plan and Execution AFE may propose drilling a Development Well that was included in the Development Plan by giving notice of the proposal (along with the associated AFE and Well Plan) to the other Parties. Each proposed Development Well that was included in the Development Plan requires approval by Election.

Each Non-Participating Party in a Development Well will be subject to either acreage forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-Consent Operations*).

13.1.1.1 Revision of Well Plan

Unless otherwise provided for in the Development Well proposal and AFE, any revisions of the Well Plan or AFE for a Development Well shall take place under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.2 (*Revision of Well Plan*).

13.1.1.2 Automatic Revision of the Well Plan

The Well Plan for a Development Well shall automatically be revised under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.3 (*Automatic Revision of the Well Plan*).

1 **13.1.2 Proposal of Development Operations Not Included in a Development Plan**

2 Subject to Article 13.1 (*Proposal of Development Wells and Development*
3 *Operations*), any Participating Party in an Execution AFE may propose drilling
4 a Development Well that was not included in the Development Plan associated
5 with that Execution AFE by giving notice of the proposal (along with the
6 associated AFE and Well Plan) to the other Parties. The proposal shall specify
7 that the well was not included in the Development Plan. Each proposed
8 Development Well that was not included in the Development Plan requires
9 approval by Election.

10 Each Non-Participating Party in a Development Well will be subject to either
11 acreage forfeiture or Hydrocarbon Recoupment, as provided in Article 16 (*Non-*
12 *Consent Operations*).

13 **13.1.3 Pre-Development Well AFE Meeting**

14 Prior to submitting an AFE for a new Development Well under Article 13.1.2
15 (*Proposal of Development Operations Not Included in a Development Plan*)
16 (including any substitute well, except for a substitute well proposed while a rig
17 is on the Unit Area), Operator shall call a meeting of the Parties entitled to an
18 Election as to the contemplated new Development Well or its substitute, if
19 applicable, to share with said Parties the preliminary scope of the contemplated
20 new Development Well. Although Operator may change, modify or alter the
21 preliminary scope of the contemplated new Development Well subsequent to the
22 meeting but prior to submission of the AFE associated therewith, as
23 contemplated herein, the general items Operator will address at the meeting, at
24 a minimum, shall consist of a preliminary well design, a preliminary rig
25 selection/type and timing, a preliminary total estimated depth of the well, a
26 preliminary Objective Depth criteria, a preliminary surface and bottomhole
27 location(s) and a preliminary zone(s) of interest. Should a Non-Operator
28 contemplate proposing an AFE for a new Development Well (or its substitute,
29 if applicable), said Non-Operator shall call a meeting consistent herewith.

30 **13.1.4 Timely Operations**

31 Except as provided below, drilling operations on a Development Well shall be
32 commenced within one-hundred and eighty (180) days after the end of the period
33 for the approval of the Development Well. If the Operator, except for an
34 occurrence of Force Majeure, does not commence drilling operations on the

1 Development Well within that one-hundred and eighty (180) day period, the
2 approved Development Well proposal shall be deemed withdrawn, with the
3 effect as if the Development Well had never been proposed and approved.

4 If an approved original or identical Development Well proposal is deemed
5 withdrawn due to a failure to timely commence drilling operations on that well,
6 all Costs incurred, which are attributable to the preparation for, or in furtherance
7 of, that Development Well, will be chargeable to the Participating Parties.
8 Drilling operations for a Development Well under this Article 13.1.3 shall be
9 deemed to have commenced on the date the rig arrives on location or, if the rig
10 is already on location, the date when actual drilling operations for the approved
11 Development Well are undertaken.

12 **13.1.5 AFE Overruns and Substitute Well**

13 Once a Development Well is commenced, the Operator shall drill the well with
14 due diligence to its Objective Depth, subject to:

- 15 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental AFEs*),
- 16 (b) the Operator encountering mechanical difficulties, uncontrolled influx of
17 subsurface water, loss of well control, abnormal well or formation
18 pressures, pressured or heaving shale, granite or other practicably
19 impenetrable substances, or other similar conditions in the well bore or
20 damage to the well bore that render, in the Operator's sole opinion, further
21 well operations impractical, and
- 22 (c) the unanimous agreement of the Participating Parties to cease drilling a
23 Development Well before reaching Objective Depth.

24 If a Development Well is abandoned due to the conditions described under
25 Article 13.1.4(b), then any Participating Party in the abandoned Development
26 Well may, within sixty (60) days after abandonment of that Development Well,
27 propose the drilling of a substitute well for the abandoned Development Well by
28 giving notice of the proposal (along with the associated AFE and Well Plan) to
29 all other Participating Parties in the abandoned Development Well, and that
30 proposal requires approval by Election of the Participating Parties in the
31 abandoned Development Well. The Well Plan for the substitute Development
32 Well shall be substantially the same as the abandoned Development Well's Well

1 Plan and shall also take into account those conditions that rendered further
2 drilling of the abandoned Development Well impractical.

3 Each Non-Participating Party in a substitute Development Well or an approved
4 supplemental AFE for a Development Well will be subject to either an acreage
5 forfeiture or Hydrocarbon Recoupment, as provided in Article 16 (*Non-Consent*
6 *Operations*).

7 **13.2 Development Operations at Objective Depth**

8 After a Development Well has been drilled to such Objective Depth and all operations in
9 the controlling AFE have been conducted or terminated (except temporary abandonment
10 and permanent plugging and abandonment) and all logs and test results have been
11 distributed to the Participating Parties, the Operator shall promptly notify the Parties
12 entitled to Vote or make an Election (i.e., the Participating Parties) of its proposal to
13 conduct subsequent operations in the well. Except for a proposal to permanently plug and
14 abandon the well, the Operator's proposal shall include an associated AFE and a plan for
15 the operation.

16 If the Participating Parties have secured the requisite approval to perform a subsequent
17 Development Operation, and, provided that Article 16.4 (*Non-Consent Operations to*
18 *Maintain Unit Area*) was not applicable to the drilling of that Development Well, then,
19 contingent upon the unanimous approval of the Participating Parties in the approved
20 subsequent Development Operation, the Operator shall notify each former Non-
21 Participating Party of the proposal. Each former Non-Participating Party may respond with
22 an Election regarding such a proposal by notifying the Operator of its Election within forty-
23 eight (48) hours (exclusive of Saturdays, Sundays, and federal holiday) after receiving the
24 Operator's notice. Any former Non-Participating Party making an Election to participate
25 in the subsequent Development Operation shall be subject to Article 13.2.5.

26 The Operator's proposal shall be for one of the following operations:

- 27 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations
28 encountered prior to setting production casing;
- 29 (b) Complete the well at the Objective Depth in the objective zone or formation;
- 30 (c) Sidetrack the well, including the requisite plug back operations;
- 31 (d) plug back the well and attempt a Completion in a shallower zone or formation;

- 1 (e) Deepen the well to a new Objective Depth;
- 2 (f) conduct other operations on the well not listed;
- 3 (g) temporarily abandon the well; or
- 4 (h) permanently plug and abandon the well.

5 If the Operator fails to submit its proposal to the Participating Parties within twenty-four
6 (24) hours (exclusive of Saturdays, Sundays, and federal holidays) after receipt of all logs
7 and test results from a Development Well, then any Participating Party may make a
8 proposal. In that event, the procedures in this Article 13.2 (*Development Operations at*
9 *Objective Depth*) shall apply to that proposal, and any reference in this Article 13.2 to the
10 “Operator’s proposal” shall include a proposal made by a Participating Party.

11 **13.2.1 Response to Operator’s Proposal**

12 A Participating Party may, within twenty-four (24) hours (exclusive of
13 Saturdays, Sundays, and federal holidays) of its Receipt of the Operator’s
14 proposal, make a separate proposal (along with an associated AFE and a plan
15 for the operation), except if the proposal is to permanently plug and abandon the
16 well) for one of the operations in Article 13.2 (*Development Operations at*
17 *Objective Depth*), and the Operator, immediately after the expiration of the
18 twenty-four (24) hour period for making a separate proposal shall provide the
19 Parties entitled to make an Election with a copy of all separate proposals so
20 made. If no separate proposal is made, the Parties entitled to make an Election
21 shall, within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal
22 holidays) following the latter of:

- 23 (a) Receipt of the Operator’s proposal; or
- 24 (b) the commencement of Standby Charges,

25 make an Election on the Operator’s proposal (except for a proposal to
26 permanently plug and abandon). If a separate proposal is made, the Parties
27 entitled to make an Election shall make an Election under the procedure in
28 Article 13.2.2 (*Response to Highest Priority Proposal*). If a proposal to
29 permanently plug and abandon the well is the only operation proposed, then the
30 approval and Cost allocation provisions of Article 13.5 (*Permanent Plugging*
31 *and Abandonment and Cost Allocation*) shall apply to the proposal. If Article

8.3 (*Second Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than All Parties*), or both, apply to an Election, then the response period in those articles shall be twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) instead of forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays). Notwithstanding any contrary provision of this Agreement, if one or more operations are proposed before the distribution of information from the previous approved operation, then the response periods provided above shall not begin until the Parties entitled to make an Election in Article 13.2 (*Development Operations at Objective Depth*) have received the information from the previous approved operation.

13.2.2 **Response to Highest Priority Proposal**

If a separate proposal is made, each Party entitled to make an Election shall, within twenty-four (24) hours (exclusive of Saturdays, Sundays, and federal holidays) following the latter of:

- (a) Receipt from the Operator of a complete copy of all separate proposals; or
- (b) the commencement of Standby Charges,

make its Election on the highest priority proposal (except a proposal to permanently plug and abandon the well). Article 13.2(a) has the highest priority, and Article 13.2(h) has the lowest priority. If different depths or locations are proposed for the same type of operation, preference shall be given to the shallowest depth, or the location nearest to the existing well bore, as applicable. If the proposal with the highest priority is approved, then the lower priority proposals shall be deemed withdrawn. Once the approved operation is completed, the Parties shall follow the procedure provided in this Article 13.2 (*Development Operations at Objective Depth*) for all other proposals for operations in the well bore until such time as the well is Completed, temporarily abandoned or permanently abandoned.

13.2.3 **Response on Next Highest Priority Proposal**

If the proposal with the highest priority is not approved, then the next highest priority proposal shall be deemed the highest priority proposal, and it shall be subject to the approval procedure in Article 13.2.2 (*Response to Highest Priority Proposal*). This process will continue until a proposal is approved to complete

the Development Well, temporarily plug and abandon the Development Well, or permanently plug and abandon a Development Well.

13.2.4 Non-Participating Parties in Development Operations at Objective Depth

A Non-Participating Party in a Development Operation conducted on a Development Well after it has reached its Objective Depth [except as provided for in this Article 13.2 (*Development Operations at Objective Depth*)] is subject to Article 16.5.4 (*Non-Consent Development Operations*) and is relieved of the Costs and risks of that Development Operation, except that a Non-Participating Party in that Development Operation remains responsible for its Participating Interest Share of the Costs of plugging and abandoning a Development Well, less and except all Costs of plugging and abandoning associated solely with the subsequent Development Operation in which it was a Non-Participating Party.

13.2.5 Participation in a Subsequent Development Operation by a Non-Participating Party in a Development Well at Objective Depth

If a Development Well is drilled to its Objective Depth and a Non-Participating Party in that Development Well becomes a Participating Party in an approved subsequent Development Operation under Article 13.2, that former Non-Participating Party shall become an Underinvested Party in an amount equal to its Non-Participating Interest Share of the Costs of that Development Well to its Objective Depth prior to that subsequent Development Operation. The original Participating Parties in a Development Well are Overinvested Parties in that amount. A former Non-Participating Party in a Development Well that becomes a Participating Party in an approved subsequent Development Operation remains a Non-Participating Party in that Development Well to initial Objective Depth until (a) its Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*) and (b) the Hydrocarbon Recoupment recoverable under Article 16.5.4 (*Non-Consent Development Operations*) less the Underinvestment, has been recovered by the original Participating Parties. If a former Non-Participating Party becomes a Participating Party in more than one approved subsequent Development Operation in the same Development Well, that former Non-Participating Party shall become an Underinvested Party only with regard to the first subsequent Development Operation it approves; however, that Underinvestment shall not be relieved by an Underinvested Party's subsequent participation.

1 **13.3 Development Well Proposals That Include Drilling Below the Deepest Producing**
 2 **Reservoir**

3 Any Party may propose a Development Well with an Objective Depth below the Deepest
 4 Producing Reservoir, and in response to that well proposal each Party may, in writing,
 5 limit its participation in the drilling of that Development Well to the base of the Deepest
 6 Producing Reservoir to be penetrated by that Development Well. A Party who limits its
 7 participation in a Development Well to the base of the Deepest Producing Reservoir shall
 8 bear its Participating Interest Share of the Cost and risk of drilling that Development Well
 9 to the base of the Deepest Producing Reservoir (including abandonment), and it shall be a
 10 Non-Participating Party for the Deeper Drilling and shall be subject to Article 16.5.4 (*Non-*
 11 *Consent Development Operations*) in regard to the Deeper Drilling.

12 **13.3.1 Multiple Completion Alternatives Above and Below the Deepest Producing**
 13 **Reservoir**

14 If a Party Electing to limit its participation in a well to the base of the Deepest
 15 Producing Reservoir to be penetrated by the well under Article 11.3 (*Appraisal*
 16 *Well Proposals That Include Drilling Below the Deepest Producing Reservoir*)
 17 or Article 13.3 (*Development Well Proposals That Include Drilling Below the*
 18 *Deepest Producing Reservoir*) considers the well to be capable of producing at
 19 or above the Deepest Producing Reservoir and has notified the Participating
 20 Parties down to Objective Depth of its desire to complete the well at or above
 21 the Deepest Producing Reservoir, the well will be drilled subject to the
 22 following provisions:

- 23 (a) **Multiple Completion:** If before drilling of the well commences, all
 24 Participating Parties in the well agree that multiple well Completions are
 25 possible and practicable and that those Completions will involve (i) a
 26 Completion at or above the Deepest Producing Reservoir and (ii) a
 27 Completion below the Deepest Producing Reservoir, the Participating
 28 Parties in the Deeper Drilling will bear one hundred percent (100%) of the
 29 Costs of drilling the well to an Objective Depth below the Deepest
 30 Producing Reservoir that are in excess of the original Costs to drill and
 31 complete the well in the Deepest Producing Reservoir.
- 32 (b) **Single Completions:** If prior to the commencement of the drilling of the
 33 well, the Participating Parties do not unanimously agree that multiple well
 34 Completions are possible, then the first Completion shall be at the

1 objective deeper than the Deepest Producing Reservoir. A Non-
2 Participating Party in the Deeper Drilling is an Overinvested Party in the
3 well in an amount equal to its Participating Interest Share of the Costs of
4 drilling the well to the Deepest Producing Reservoir, and the Participating
5 Parties in the Deeper Drilling on the well are Underinvested Parties for
6 that amount upon the first of the following events to occur:

7 (i) the well is not a Producing Well at a depth deeper than the Deepest
8 Producing Reservoir and the well is plugged back to a zone at or
9 above the Deepest Producing Reservoir;

10 (ii) the well is completed as a Producing Well at a depth deeper than
11 Deepest Producing Reservoir, but Hydrocarbon production from
12 that depth is later depleted prior to Complete Recoupment (in
13 regard to Deeper Drilling) and the well is plugged back to a zone
14 at or above the Deepest Producing Reservoir;

15 (iii) the well is completed as a Producing Well at a depth deeper than
16 the Deepest Producing Reservoir and the Participating Parties
17 have achieved Complete Recoupment (in regard to the Deeper
18 Drilling) from Hydrocarbon production from a zone deeper than
19 the Deepest Producing Reservoir;

20 (iv) the well is plugged and abandoned prior to an attempted
21 Completion at or above the Deepest Producing Reservoir.

22 The Underinvestment will be depreciated at the rate of one-half of one percent
23 (0.50%) per month from the date the Deeper Drilling commences to the date the
24 Non-Participating Party is entitled to share in the Hydrocarbon production from
25 zones deeper than Deepest Producing Reservoir, but that depreciation will not
26 reduce the Underinvestment below seventy-five percent (75%) of the original
27 Underinvestment.

28 **13.3.2 Completion Attempts At or Above the Deepest Producing Reservoir**

29 If a Development Well in which Deeper Drilling is conducted is not completed
30 for production below the Deepest Producing Reservoir, then the Participating
31 Parties in that well down to the Deepest Producing Reservoir may use the well
32 for Completion in a zone at or above the Deepest Producing Reservoir. The

Parties who paid their proportionate share of the drilling Costs to the base of the Deepest Producing Reservoir under Article 13.3 (*Development Well Proposals That Include Drilling Below the Deepest Producing Reservoir*) may participate in the Completion attempt in the zone at or above the Deepest Producing Reservoir. The Participating Parties in the Deeper Drilling operation shall bear the Costs (including plugging back Costs) necessary to place the well in proper condition for its Completion in the zone at or above the Deepest Producing Reservoir. If a well drilled below the Deepest Producing Reservoir is damaged to the extent that it is rendered incapable of being completed and produced at or above the Deepest Producing Reservoir, the Participating Parties in the Deeper Drilling are obligated to reimburse the Non-Participating Parties in the Deeper Drilling for their Participating Interest Share of the Costs of drilling the well to the base of the Deepest Producing Reservoir.

13.4 Rec Completions and Workovers

Any of the Participating Parties in the subsequent Development Operation, Rec completion, or Workover that resulted in the most recent Hydrocarbon production from a Development Well may propose a Rec completion in or Workover of that Development Well. Each Rec completion or Workover, including the permanent plugging and abandonment of a Producing Reservoir, requires approval by Vote of those Participating Parties. A Non-Participating Party in a Rec completion or Workover is subject to Article 16.5.4 (*Non-Consent Development Operations*) and is relieved of the Costs and risks of the Rec completion or Workover but remains responsible for its Participating Interest Share of the Costs of plugging and abandoning the Development Well, less and except any Costs of plugging and abandoning associated solely with a Rec completion or Workover in which it is a Non-Participating Party.

13.5 Permanent Plugging and Abandonment and Cost Allocation

Except as otherwise provided in this Agreement, the permanent plugging and abandonment of a Development Well that is located on active lease and:

- (a) is to be plugged due to mechanical difficulties or impenetrable conditions before the well has been drilled to its Objective Depth under Article 13.1.4 (b),
 - (b) is to be plugged under Article 13.2 (*Development Operations at Objective Depth*),
- or

1 (c) has been previously temporarily abandoned under Article 13.2 (*Development*
2 *Operations at Objective Depth*)

3 and has not produced Hydrocarbons (other than as a result of Production Testing), requires
4 the approval of the Participating Parties by unanimous agreement. Approval to plug and
5 abandon a Development Well that has produced Hydrocarbons (other than as a result of
6 Production Testing) shall be governed by Article 18.1 (*Abandonment of Wells*). If a
7 proposal to plug and abandon a Development Well receives approval by unanimous
8 agreement, the approved proposal binds all Parties. If any Participating Party fails to
9 respond within the applicable response period for a proposal to plug and abandon a
10 Development Well, that Participating Party shall be deemed to have approved the plugging
11 and abandonment of that Development Well. If a rig is on location and a proposal to plug
12 and abandon a Development Well under either Article 13.5 (a) or 13.5 (b) does not receive
13 approval by unanimous agreement, and if within twenty-four (24) hours (exclusive of
14 Saturdays, Sundays, and federal holidays) after Receipt of that proposal no other operation
15 is proposed (and subsequently approved) for the well by a Party entitled to make a proposal,
16 the Operator may nevertheless proceed to plug and abandon the Development Well, and
17 shall give each Participating Party notice of that fact. If the proposal to plug and abandon
18 a Development Well that has not produced Hydrocarbons (other than as a result of
19 Production Testing) does not receive approval by unanimous agreement, but the Operator,
20 in its sole and reasonable opinion, deems the well bore not to be safe or in sound enough
21 condition for it to perform further operations, the Operator may nevertheless proceed to
22 plug and abandon that Development Well and shall give each Participating Party notice of
23 that fact.

24 The Participating Parties in a Development Well proposal shall pay all Costs of plugging
25 and abandoning that Development Well, except all increased plugging and abandoning
26 Costs associated solely with a Non-Consent Operation approved under Article 13.2
27 (*Development Operations at Objective Depth*) or Article 6.2.2 (*Supplemental AFEs*). The
28 Participating Parties in that Non-Consent Operation are responsible for the increased
29 plugging and abandoning Costs attributable to that Non-Consent Operation.

30 **ARTICLE 14 – FACILITIES AND GATHERING SYSTEMS**

31 **14.1 Facilities as a Part of Development Plan**

32 The Development Plan shall provide for the installation of all Facilities necessary to handle
33 or service Hydrocarbons produced pursuant to that Development Plan. If the approved

1 Development Plan provides that Hydrocarbon production can most efficiently be processed
2 and handled by Offsite Host Facilities, the Development Plan shall provide for a
3 Development System designed to use Offsite Host Facilities.

4 **14.2 Use of Offsite Host Facilities**

5 In the event the approved Development Plan provides that Hydrocarbon production can
6 most efficiently be processed and handled by Offsite Host Facilities, the Participating
7 Parties shall use reasonable efforts to secure a formal “Facilities Use and Production
8 Handling Agreement” from the owners of the Offsite Host Facilities under the terms
9 submitted to the Parties by the Operator under Article 12.4.1 (f) (*Tieback Operations*), but
10 no Participating Party shall have a duty (fiduciary or otherwise) to secure capacity in the
11 Offsite Host Facilities on behalf of any other Participating Party. However, any capacity
12 secured by that “Facilities Use and Production Handling Agreement” to Offsite Host
13 Facilities shall be shared proportionately by the Participating Parties, who executed the
14 “Facilities Use and Production Handling Agreement,” on the basis of their Participating
15 Interest Share in the Development System, unless those Parties agree to a different
16 proportionate share of the capacity. This Agreement shall govern all operations and
17 activities regarding Hydrocarbon production, which are not specifically addressed in the
18 “Facilities Use and Production Handling Agreement.” This Article 14.2 shall not constitute
19 a limit on a Party's right to install its own facilities under Article 15 (*Disposition of*
20 *Hydrocarbon Production*).

21 **14.3 Use of Development Systems**

22 The Participating Parties in a Development System have priority access to and utilization
23 of the Facilities associated with the Development System in order to operate and develop
24 the Unit Area under an approved Development Plan.

25 **14.4 Processing Priorities**

26 The Participating Parties in a Development System jointly own all processing and handling
27 capacity associated with that Development System. The use of excess processing or
28 handling capacity in that Development System is subject to the following priority of usage:

- 29 (a) First priority to Hydrocarbon production from the Development Phase during which
30 the existing processing Facilities were fabricated and installed;
- 31 (b) Second priority to Hydrocarbon production from a Development Phase during which
32 the existing processing Facilities were not fabricated and installed;

- 1 (c) Third priority to hydrocarbon production from outside the Unit Area that is owned
2 one hundred percent (100%) by all Participating Parties in the Development System
3 in the same percentage as their ownership in that Development System;
- 4 (d) Fourth priority to hydrocarbon production from outside the Unit Area that is owned
5 one hundred percent (100%) by all of the Participating Parties in the Development
6 System but not in the same percentage as their ownership in the Development
7 System;
- 8 (e) Fifth priority to hydrocarbon production from outside the Unit Area that is owned by
9 all Participating Parties in the Development System and a third party;
- 10 (f) Sixth priority to hydrocarbon production from outside the Unit Area that is owned
11 by one or more Participating Parties in the Development System, but not by all of
12 them, and a third party; and
- 13 (g) Seventh priority to hydrocarbon production from outside the Unit Area that is owned
14 one hundred percent (100%) by a third party.

15 Any hydrocarbon production processing and handling capacity offered to parties under (d),
16 (e), (f), and (g) of this Article 14.4 shall be processed and handled under a “Facilities Use
17 and Production Handling Agreement” unanimously agreed to by the Participating Parties
18 in the Execution AFE for that Development System and, if applicable, the Participating
19 Parties in any additional Facilities which are to be used for the processing or handling of
20 those hydrocarbons.

21 **14.5 Approval of Additional Facilities**

22 This Article 14.5 shall only apply to Facilities that were not included in an approved
23 Development Plan and are to be utilized for Hydrocarbon production. Any Participating
24 Party in an Execution AFE for a Development System may propose the installation of
25 additional Facilities beyond those specified in the Development Plan associated with that
26 Development System by giving notice to the other Participating Parties (along with an
27 associated AFE), together with information adequate to describe the proposed Facilities.
28 Except as provided in Article 15.2 (*Facilities to Take In Kind*), the installation of additional
29 Facilities beyond the scope of a Development Plan requires the approval by Vote of the
30 Participating Parties in the Execution AFE (and all supplemental AFEs) for the
31 Development System that is to receive the additional Facilities. Upon approval of such a
32 proposal, the Operator shall proceed to install the additional Facilities, provided that, in the

1 judgment of the Operator, the additional Facilities do not interfere with continuing
2 operations on the Unit Area and there is sufficient deck space and buoyancy available to
3 support the proposed additional Facilities. A Non-Participating Party in a proposal for
4 additional Facilities shall be subject to Article 16.5.5 (*Non-Consent Subsequent*
5 *Development System and Additional Facilities*). If the Facilities proposal is for a disposal
6 well, that Facilities proposal shall contain the same information provided in a Development
7 Well proposal.

8 **14.6 Expansion or Modification of Existing Production System**

9 This Article 14.6 shall only apply to expansions or modifications of a Production System
10 that are to be utilized for activities or operations on the Unit Area. After installation of a
11 Production System described and approved in a Development Plan, any Participating Party
12 in that Production System may propose the expansion or modification of that Production
13 System by written notice (along with its associated AFE) to the other Participating Parties
14 in that Production System. That proposal requires the approval by Vote of the Participating
15 Parties in that Production System. If approved, that proposal will be binding on all
16 Participating Parties in that Production System, and the Operator shall commence that
17 expansion or modification at the sole Cost and risk of all of the Participating Parties in that
18 Production System unless otherwise agreed.

19 **14.7 Additions, Expansion, or Modification of Production System or Facilities for Health,** 20 **Safety, or Environmental Reasons**

21 If a proposal for additional Facilities or a proposal for the expansion or modification of a
22 Production System does not receive approval by Vote of the Participating Parties in the
23 Execution AFE (and all supplemental AFEs) for the Development System that is to receive
24 additional Facilities or have its Production System expanded or modified, whichever is
25 applicable, and that proposal is necessary for health, safety, or environmental reasons and
26 has been mandated by governmental authority or judicial process, the Operator may, at its
27 discretion, install those additional Facilities or make those expansions or modifications to
28 the Production System. If the Operator elects to exercise its discretionary right to make
29 those installations, modifications, or expansions, the Operator shall provide written notice
30 of its decision to each Participating Party in the Execution AFE (and all supplemental
31 AFEs) for the Development System that is to receive additional Facilities or have its
32 Production System expanded or modified, whichever applies.

14.8 Repairs of Production System or Facilities

Subject to Article 6.2 (*AFEs*), the Operator may make repairs to the Production System and/or Facilities as needed to keep the Production System and/or Facilities in good working order, as approved by Election. A Non-Participating Party as to the Costs to repair the Production System and/or Facilities shall be subject to Article 16.4 (*Non-Consent Operations to Maintain Unit Area*) or 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team AFEs, or Long Lead Well Operation AFEs*), as applicable.

ARTICLE 15 – DISPOSITION OF HYDROCARBON PRODUCTION**15.1 Duty to Take in Kind**

Each Party has the right and duty to take in kind or separately dispose of its share of the Hydrocarbons produced and saved from the Unit Area, excluding (i) Hydrocarbons that are unavoidably lost and (ii) Hydrocarbon production that the Operator uses in production or Development Operations or in preparing and treating Hydrocarbons for marketing or transportation in an Export Pipeline.

15.2 Facilities to Take in Kind

Each Participating Party in the Execution AFE for a Development System has the right, at its sole cost and risk, to construct and install facilities on and connect pipelines to the Development System for purposes of taking its share of Hydrocarbon production in kind, provided that, in the judgment of the Operator, the installation and operation of those facilities and pipelines will not unreasonably interfere with continuing operations on the Development System or the Unit Area.

15.3 Failure to Take Oil and/or Condensate in Kind

If a Party fails to take in kind or dispose of its share of the oil and/or condensate produced from the Unit Area, the Operator shall have the right, but never the obligation, to purchase for its own account, sell to others, or otherwise dispose of all or part of that oil or condensate to others at the prevailing price in the area for oil or condensate of the same kind, gravity, and quality reasonably obtained by the Operator under the circumstances, subject to revocation by the non-taking Party upon thirty (30) days written notice to the Operator but shall not take effect until the Operator's sales contract with a third party terminates. The Operator is not obligated to obtain a price equal to the price at which its oil or condensate is sold. The Operator's right to take in kind or dispose of a non-taking

1 Party's share of the oil or condensate is subject to the non-taking Party's right, at any time
2 and from time to time, to take in kind or dispose of its share of the oil or condensate. All
3 contracts of sale by the Operator for another Party's oil or condensate shall be only for such
4 reasonable periods not to exceed one hundred and eighty (180) days. Proceeds of all sales
5 by the Operator under this Article 15.3 shall be paid to the Party entitled thereto once in
6 each calendar month. The Operator shall pay all lessor royalties for oil and/or condensate
7 not taken in kind by the non-taking Party.

8 Unless required by governmental authority or judicial process, no Party shall be forced to
9 share an available market with a non-taking Party.

10 **15.4 Gas Balancing Provision**

11 If for any reason a Party fails to take or market its full share of gas as produced, the gas
12 balancing and accounting between the Parties shall be handled under Exhibit "D."

13 **15.5 Expenses of Delivery in Kind**

14 All Costs incurred by the Operator in making delivery of a Party's share of Hydrocarbon
15 production or disposing of same shall be borne by that Party.

16 **ARTICLE 16 – NON-CONSENT OPERATIONS**

17 **16.1 Conduct of Non-Consent Operations**

18 Any activity or operation that invokes this Article 16 (*Non-Consent Operations*) must be
19 proposed by a Party in good faith, using Cost estimates and Objective Depths that are
20 reasonable for the Unit Area. Non-Consent Operations shall not unreasonably interfere
21 with activities or operations conducted by all Parties, unless the Non-Consent activity or
22 operation will maintain all or a portion of the Unit Area under Article 16.4 (*Non-Consent
23 Operations to Maintain Unit Area*).

24 **16.1.1 Costs**

25 The Costs of a Non-Consent Operation shall be borne by the Participating Parties
26 in accordance with their Participating Interest Share in the Non-Consent
27 Operation (unless otherwise agreed by the Participating Parties). Within ninety
28 (90) days after a Non-Consent Operation has been conducted, the Operator shall
29 furnish all other Parties with either (a) an itemized statement of the Cost of the
30 Non-Consent Operation and an inventory of the pertinent equipment or (b) a
31 detailed statement of monthly billings. The Operator shall furnish to the Parties
32 a monthly statement showing operating, maintenance, and other expenses

1 attributable to the Non-Consent Operation together with a statement of the
2 quantity of Hydrocarbons produced, and the revenues from the sale of
3 Hydrocarbon production for the preceding month from operations subject to
4 Hydrocarbon Recoupment under this Article 16. In accounting for the revenues
5 from Non-Consent Operations, Hydrocarbon production need not be separately
6 metered, but may be determined upon the basis of monthly well tests, or as
7 otherwise permitted in the DOI Surface or Subsurface Commingling Approval.
8 Operating expenses shall be allocated under Article 16.8.3 (*Operating and*
9 *Maintenance Charges*). If a Party takes its share of production in kind under
10 Article 15 (*Disposition of Hydrocarbon Production*), that Party shall advise the
11 Operator (in writing on or before the tenth day of the month following the month
12 in which the Hydrocarbon production is sold or used off the premises) of the
13 volumes of Hydrocarbons sold or used off the premises and the prices received
14 for those Hydrocarbons so that the Operator may calculate the balance of any
15 Hydrocarbon Recoupment amounts.

16 The calculation of the balance of Hydrocarbon Recoupment shall be
17 accomplished as follows:

18 The Operator shall prepare the monthly statement of the quantities of oil and gas
19 produced and the amounts of the proceeds from the sale of all Non-Participating
20 Parties' relinquished production based on the proceeds received for the
21 Operator's share of production. When Operator's payout calculation indicates
22 that payout has occurred, the Operator shall promptly notify all Parties. The
23 Participating Parties shall then provide the Operator all information pertaining
24 to the cumulative proceeds received from the sale of the Non-Participating
25 Parties' relinquished production. The Operator shall revise the payout date using
26 the actual proceeds from the sale of the Non-Participating Party's relinquished
27 production and administer subsequent adjustments between the Parties.

28 **16.1.2 Multiple Completions**

29 Non-Consent Operations shall not be conducted in a well having multiple
30 Completions unless:

- 31 (a) each of the multiple Completions are owned by the same Parties in the
32 same proportion;

(b) none of the previous well Completions are capable of producing in paying quantities; or

(c) the Participating Parties in the well containing the multiple Completions unanimously agree to those Non-Consent Operations.

For the purposes of this Article 16, each Completion is a separate well.

16.2 NOTE: It is hereby agreed amongst the signatories of this Unit Operating Agreement that the Acreage Forfeiture Provisions for the First Exploratory Well and Substitute Wells(s) for the First Exploratory Well are not applicable to this Unit Agreement.

Acreage Forfeiture Provisions

~~In view of the significantly greater risks associated with the first Exploratory Well and the Execution AFE for the initial Development System, the Participating Parties in the first Exploratory Well or that Execution AFE are entitled to an assignment of all of the right, title, and interest (including operating rights) in the Unit Area of the Non-Participating Parties in that well or AFE as provided below.~~

16.2.1 First Exploratory Well & Substitute Well(s) for the First Exploratory Well

16.2.1.1 First Exploratory Well

~~If a Participating Party proceeds with the timely commencement of the drilling of the first Exploratory Well as a Non-Consent Operation and~~

~~(a) the first Exploratory Well is drilled to its Objective Depth; or~~

~~(b) the first Exploratory Well is drilled to a depth shallower than its Objective Depth and one hundred percent (100%) or more of the total amount of the AFE for that Exploratory Well is expended;~~

~~then within thirty (30) days after notice of the occurrence of an event described in clause (a) or (b), a Non-Participating Party in the first Exploratory Well shall execute and deliver an assignment of all of its right, title, and interest in the Unit Area, free of all Lease Burdens as defined in Article 19.1 (*Burdens on Hydrocarbon Production*), effective on the date actual drilling operations for the well are commenced, to the Participating Parties in the first Exploratory Well or its substitute well, as applicable, with no reimbursement by and at no Cost to those Participating Parties. If an assignment is made under this Article 16.2.1.1,~~

then each Participating Party shall accept its Participating Interest Share, as determined under Article 8.4 (*Participation by Fewer Than All Parties*), of the Non-Participating Party's assigned interest. The Non-Participating Party's Election not to participate in the first Exploratory Well shall be deemed a withdrawal under Article 17 (*Withdrawal From Agreement*), and the Parties shall be subject to Article 17 (*Withdrawal From Agreement*). After the satisfaction of Article 16.2.1.1(a), a Non-Consent Operation performed in the first Exploratory Well's well bore or its substitute's well bore, as applicable, shall not be subject to this Article 16.2.1.1 but shall be subject to the Hydrocarbon Recoupment premium provided in Article 16.5.1.1 (*Non-Consent Exploratory Operations at Objective Depth*), except as provided in Article 16.4 (*Non-Consent Operations to Maintain Unit Area*).

16.2.1.2 Substitute Well(s) for First Exploratory Well

If all Parties Elect to participate in the First Exploratory Well, and such well is commenced and abandoned under Article 10.1.5 (*AFE Overruns and Substitute Well*) prior to reaching its Objective Depth, and then a Party proposes the drilling of a substitute well for such first Exploratory Well, then any Party that Elects not to participate in such substitute well shall be subject to acreage forfeiture or Hydrocarbon Recoupment as provided in this Article 16.2.1.2. If, upon abandoning the first Exploratory Well under Article 10.1.4 (*AFE Overruns and Substitute Well*), the Parties have expended an amount equal to or more than fifty percent (50%) of the AFE for such first Exploratory Well, then a Party that Elects not to participate in a substitute well for such first Exploratory Well, shall be subject to the Hydrocarbon Recoupment as provided in Article 16.5.1.2 (*Non-Consent Exploratory Operations for a Substitute Well(s) for the First Exploratory Well*). If, upon abandoning the first Exploratory Well under Article 10.1.5 (*AFE Overruns and Substitute Well*), the Parties have expended an amount less than fifty percent (50%) of the AFE for such first Exploratory Well, then a Party that Elects not to participate in a substitute well for such first Exploratory Well, shall be subject to acreage forfeiture as provided in Article 16.2.1.1 (*First Exploratory Well*).

16.2.2 Execution AFE

Within thirty (30) days of notice of the timely commencement of the activities or operations associated with the Execution AFE for the initial Development System, a Non-Participating Party in that Execution AFE shall execute and

1 deliver an assignment of all of its right, title, and interest in the Unit Area to the
 2 Participating Parties in that Execution AFE, free of all Lease Burdens as defined
 3 in Article 19.1 (*Burdens on Hydrocarbon Production*), effective on the date the
 4 construction or acquisition of the initial Development System is commenced,
 5 with no reimbursement by and at no Cost to those Participating Parties. If an
 6 assignment is made under this Article 16.2.2, then each Participating Party shall
 7 accept its Participating Interest Share, as determined under Article 8.4
 8 (*Participation by Fewer Than All Parties*), of the Non-Participating Party's
 9 assigned interest. The Non-Participating Party's Election not to participate in
 10 the Execution AFE for the initial Development System shall be deemed a
 11 withdrawal under Article 17 (*Withdrawal From Agreement*), and the Parties
 12 shall be subject to Article 17 (*Withdrawal From Agreement*).

13 **16.3 Costs and Liabilities of Prior Operations**

14 Subject to Article 6.2.2 (*Supplemental AFEs*), a Non-Participating Party subject to a non-
 15 consent provision remains liable for its share of previously incurred Costs and liabilities
 16 for activities and operations in which it was a Participating Party, and there shall be no re-
 17 allocation of Costs for activities and operations in which it was a Participating Party, except
 18 as provided in Article 13.3.1 (*Multiple Completion Alternatives Above and Below the*
 19 *Deepest Producible Reservoir*).

20 **16.4 Non-Consent Operations to Maintain Unit Area**

21 If a proposal is made for

22 (a) an activity or operation required under a governmental agency order, notice,
 23 regulation, or Lease to maintain all or part of the Unit Area; or

24 (b) an activity or operation

25 (i) within the final three hundred and sixty-five (365) days of the primary term
 26 of a Lease, and if the Lease is not held by any means and will expire under
 27 its own terms, or

28 (ii) within ninety (90) days prior to the deadline for an activity or operation
 29 required under an SOO or SOP activity schedule or a unit plan of operation,

30 and the proposal requires approval by Vote, Election or unanimous agreement and that
 31 approval or agreement is not obtained within the applicable response period, then,
 32 notwithstanding any contrary provision of Article 8 (*Approvals and Notices*), the proposed

1 activity or operation shall be deemed to have been approved, and all Parties that Voted or
2 Elected or agreed by written statement to participate in the proposed activity or operation
3 may proceed with the proposed activity or operation at their sole Cost and risk. However,
4 before those Parties commence that activity or operation, they shall give written notice to
5 the other Parties of their intention to commence that activity or operation. The other Parties
6 shall have a second opportunity to participate in that activity or operation, under Article
7 8.3 (*Second Opportunity to Participate*).

8 **16.4.1 Acreage Forfeiture in the Entire Unit Area**

9 If it is necessary to conduct an activity or operation referred to in Article 16.4
10 (*Non-Consent Operations to Maintain Unit Area*) in order to maintain the entire
11 Unit Area, then each Non-Participating Party in that activity or operation shall
12 relinquish and permanently assign, effective on the date the operation is
13 commenced, to the Participating Parties one hundred percent (100%) of the Non-
14 Participating Party's Working Interest in the entire Unit Area, including property
15 and equipment acquired under this Agreement, within thirty (30) days of the
16 commencement of that activity or operation. Failure to participate in that
17 activity or operation is deemed a withdrawal, and the Parties will be subject to
18 Article 17 (*Withdrawal From Agreement*).

19 **16.4.2 Acreage Forfeiture in a Portion of a Unit Area**

20 If it is necessary to conduct an activity or operation referred to in Article 16.4
21 (*Non-Consent Operations to Maintain Unit Area*) in order to maintain a portion
22 of the Unit Area, then each Non-Participating Party in that activity or operation
23 shall relinquish and permanently assign, effective on the date the operation is
24 commenced, to the Participating Parties one hundred percent (100%) of the Non-
25 Participating Party's Working Interest in the affected portion of the Unit Area,
26 including property and equipment acquired under this Agreement, within thirty
27 (30) days of the commencement of that activity or operation. That assignment
28 shall be conveyed to the Participating Parties in proportion to their Participating
29 Interest Share in that activity or operation. The Non-Participating Party shall
30 bear all expenses associated with that assignment and shall be subject to Article
31 17.3.1 (*Prior Expenses*), Article 17.3.2 (*Confidentiality*) and Article 17.3.3
32 (*Emergencies and Force Majeure*) with respect to the assigned acreage. If a
33 Development System does not exist at the time of the forfeiture assignment or if
34 the Non-Participating Party, who forfeited its interest under this Article 16.4,
35 was a Non-Participating Party in the Development System which is located in

1 the non-forfeited portion of the Unit Area, upon DOI approval of that
2 assignment, the assigned acreage shall be expunged from Exhibit "A," and it
3 shall no longer be included in the Unit Area. If that assignment is to two or more
4 Participating Parties in that activity or operation, then (a) the assigned acreage
5 shall be deemed to be governed by an operating agreement incorporating
6 identical provisions as the provisions in this Agreement, except to the extent
7 they are clearly inappropriate, (b) the execution of the operating agreement by
8 those Participating Parties shall be considered a mere formality only, (c) the
9 Operator of the assigned acreage shall promptly prepare that operating
10 agreement, and (d) the Participating Parties shall promptly execute it. If a
11 Development System is located on the non-forfeited portion of the Unit Area
12 and if the Participating Parties in the operation or activity, which were conducted
13 in order to save the forfeited portion of the Unit Area, are Participating Parties in
14 that Development System, the Parties shall amend this Agreement to provide for a
15 separate operational area for the forfeited portion of the Unit Area and a separate
16 operational area for the non-forfeited portion of the Unit Area, and this Agreement
17 shall apply separately to each operational area; provided however, the Participating
18 Parties in the Development System located on the non-forfeited portion of the
19 Unit Area, who participated in the operation or activity, which were conducted in
20 order to save the forfeited portion of the Unit Area, shall have the same priority of
21 access to that Development System as the Parties in the separate operational area
22 for the non-forfeited portion of the Unit Area.

23 **16.4.3 Limitations on Acreage Forfeiture**

24 Notwithstanding the foregoing, if more than one activity or operation is
25 conducted under Article 16.4 (*Non-Consent Operations to Maintain Unit Area*),
26 any one of which would maintain the entire Unit Area or the affected portion of
27 the Unit Area, a Participating Party in any one of those activities or operations
28 shall not be required to make an assignment under Article 16.4 (*Non-Consent*
29 *Operations to Maintain Unit Area*). In addition, no Party is required to
30 relinquish or assign all or any portion of its Working Interest in the Unit Area if
31 a governmental agency order, notice, regulation, Lease provision, SOO or SOP
32 activity schedule, or unit plan of operation requiring the activity or operation is
33 appealed and successfully overturned.

1 **16.5 Percentage Hydrocarbon Recoupment for Non-Consent Operations**

2 Except as provided in Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-*
 3 *Consent Operations to Maintain Unit Area*), upon the timely commencement of a Non-
 4 Consent Operation, each Non-Participating Party's Working Interest and leasehold
 5 operating rights in the Non-Consent Operation along with its title to that portion of future
 6 Hydrocarbon production provided in this Article 16.5, if any, shall be owned by and vested
 7 in each Participating Party in accordance with its Participating Party Interest Share in the
 8 Non-Consent Operation under Article 8.4 (*Participation by Fewer Than All Parties*). A
 9 third-party cash contribution made for Confidential Data from a Non-Consent Operation
 10 shall be deducted from the Non-Participating Interest Share of the Costs of the well
 11 operation or of drilling and completing the well, as applicable, prior to computation of the
 12 Hydrocarbon Recoupment amount.

13 **16.5.1 Non-Consent Exploratory Operations down to Objective Depth in the First**
 14 **Exploratory Well**

15 ~~Except for the Hydrocarbon Recoupment provided in Articles 16.2.1.2~~
 16 ~~(*Substitute Well(s) for the First Exploratory Well*) and 16.5.1.2 (*Non-Consent*~~
 17 ~~*Exploratory Operations for a Substitute Well(s) for the First Exploratory Well*)~~
 18 ~~Since the Participating Parties in the first Exploratory Well are entitled to an~~
 19 ~~assignment of all of the right, title, and interest (including operating rights) in~~
 20 ~~the Unit Area of the Non-Participating Parties in that well as provided in Article~~
 21 ~~16.2.1.1 (*First Exploratory Well*), there is no Hydrocarbon Recoupment for~~
 22 ~~Non-Consent Exploratory Operations conducted in the first Exploratory Well~~
 23 ~~down to its Objective Depth.~~

24 **16.5.1.1 Non-Consent Exploratory Operations at Objective Depth**

25 The Hydrocarbon Recoupment amount for all non-consent
 26 Exploratory Operations conducted after the first Exploratory Well
 27 has reached its Objective Depth, be they non-consent Exploratory
 28 Wells other than the first Exploratory Well or operations conducted
 29 subsequent to an Exploratory Well, including the first Exploratory
 30 Well, reaching its Objective Depth, is the Non-Participating Interest
 31 Share of the Costs of that Non-consent Operation multiplied by eight
 32 hundred percent (800%).

16.5.1.2 Non-Consent Exploratory Operations for a Substitute Well(s) for the First Exploratory Well

The Hydrocarbon Recoupment amount for all non-consent Exploratory Operations down to Objective Depth conducted in a substitute well for the first Exploratory Well, be they non-consent substitute Exploratory Wells other than a substitute well for the first Exploratory Well, is the Non-Participating Interest Share of the Costs of that Non-consent Operation multiplied by eight percent (800%).

16.5.2 Non-Consent Appraisal Operations

The Hydrocarbon Recoupment amount for all Appraisal Operations conducted as Non-Consent Operations is the Non-Participating Interest Share of the Costs of the Appraisal Operation multiplied by six hundred percent (600%).

16.5.3 Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, Enhanced Recovery Project Team AFEs or Long Lead Well Operation AFEs

If a Non-Participating Party in a Proprietary Geophysical Operation, Feasibility AFE, Post-Production Project Team AFE, Enhanced Recovery Project Team AFE takes, or is deemed to have taken, the steps set forth in Article 16.9 (*Settlement of Underinvestments*), that Party is an Underinvested Party in an amount equal to one hundred and fifty percent (150%) of the amount it would have paid had it participated in that activity, operation, or AFE until the Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*). If a Non-Participating Party in a Selection AFE, Define AFE, Long Lead Development System AFE or Long Lead Well Operation AFE takes, or is deemed to have taken, the steps set forth in Article 16.9 (*Settlement of Underinvestments*), that Party is an Underinvested Party in an amount equal to two hundred percent (200%) of the amount that the it would have paid had it participated in that AFE until the Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*).

16.5.4 Non-Consent Development Operations

The Hydrocarbon Recoupment amount for all Development Operations conducted as Non-Consent Operations is the Non-Participating Interest Share of

the Costs of the Development Operation multiplied by four hundred percent (400%).

16.5.5 Non-Consent Subsequent Development System and Additional Facilities

The Hydrocarbon Recoupment amount for a non-consent Execution AFE for a subsequent Development System or additional Facilities not included in an Execution AFE is the Non-Participating Interest Share of the Cost incurred with respect to that Execution AFE or those additional Facilities not included in an Execution AFE multiplied by three hundred percent (300%).

16.5.6 Additional Hydrocarbon Recoupment

In addition to the percentage Hydrocarbon Recoupment for the various Non-Consent Operations set forth above, the Participating Parties are entitled to recoup:

- (a) one hundred and ten percent (110%) of the Non-Participating Interest Share of the Cost of using an existing Development System that is needed to serve a Production System or Facilities installed as a Non-Consent Operation, in which the Non-Participating Party has a Participating Interest; plus
- (b) one hundred and ten percent (110%) of the Non-Participating Interest Share of the Cost of operating expenses, maintenance Costs, royalties, and severance, gathering, and production taxes and other governmental fees based on production.

16.5.7 Hydrocarbon Recoupment From Production

Hydrocarbon Recoupment for a Non-Consent Operation shall be made from the Hydrocarbon production as follows:

16.5.7.1 Non-Consent Exploratory Operations, Non-Consent Appraisal Operations, and Non-Consent Development Operations That Discover or Extend a Producing Reservoir

For

- (a) an Exploratory Operation,
- (b) an Appraisal Operation, or

(c) a Development Operation,

that is conducted as a Non-Consent Operation and discovers a new Producing Reservoir or extends an existing Producing Reservoir (as the Producing Reservoirs existed at the time the Development Operation was proposed), each Non-Participating Party shall satisfy Hydrocarbon Recoupment from

(i) one hundred percent (100%) of its Non-Participating Interest Share of all Hydrocarbons produced and saved from the Non-Consent Operation, if the Non-Consent Operation results in Hydrocarbon production, and

(ii) fifty percent (50%) of its Participating Interest Share of all Hydrocarbons produced and saved from operations conducted after the Non-Consent Operation that result in Hydrocarbon production from the same Producing Reservoir discovered or extended by the Non-Consent Operation.

16.5.7.2 Non-Consent Development Operations in an Existing Producing Reservoir

If a Development Operation is conducted as a Non-Consent Operation and does not discover a new Producing Reservoir and also does not extend an existing Producing Reservoir (as the Producing Reservoirs existed at the time the Development Operation was proposed), each Non-Participating Party shall satisfy Hydrocarbon Recoupment from one hundred percent (100%) of its Non-Participating Interest Share of Hydrocarbons produced and saved from the Non-Consent Operation, if the Non-Consent Operation results in Hydrocarbon production.

16.5.7.3 Non-Consent Subsequent Development Systems

If the construction and installation of a subsequent Development System is conducted as a Non-Consent Operation, each Non-Participating Party shall satisfy Hydrocarbon Recoupment from:

(a) one hundred percent (100%) of its Non-Participating Interest Share or its Participating Interest Share (whichever applies) of Hydrocarbons produced and saved from all Development

Operations that are conducted from that subsequent Development System, and

- (b) one hundred percent (100%) of its Non-Participating Interest Share or its Participating Interest Share (whichever applies) of Hydrocarbons produced and saved from all wells that benefit from injection or disposal wells drilled and/or operated from that subsequent Development System.

16.6 Restoration of Interests to Non-Participating Party

Except as provided in Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-Consent Operations to Maintain Unit Area*), a Non-Participating Party's Working Interest and leasehold operating rights revert to the Non-Participating Party, effective at 7:00 a.m. of the day after the occurrence of the first of the following events:

- (a) the well bore of the Non-Consent Operation is not a Producing Well on the date the permanent plugging and abandonment of the well concludes;
- (b) Hydrocarbon production recouped under Article 16.5.7 (*Hydrocarbon Recoupment From Production*) as result of a Non-Consent Operation ceases prior to Complete Recoupment;
- (c) the Participating Parties Sidetrack or Deepen an Exploratory Well, Appraisal Well, or Development Well and that well does not qualify as a Producing Well; or
- (d) upon Complete Recoupment.

However, only upon Complete Recoupment does a former Non-Participating Party become a Participating Party in the Non-Consent Operation.

16.6.1 Dry Hole Reversion

If a Non-Consent Operation, other than a Non-Consent Operation under Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-Consent Operations to Maintain Unit Area*), results in an event provided in Article 16.6 (a) or (b) and a Non-Participating Party's Working Interest and leasehold operating rights revert back to the Non-Participating Party, all well equipment in place as a result of that Non-Consent Operation and all Development Systems fabricated and installed as a result of that Non-Consent Operation and rights to future Hydrocarbon production from a Producing Reservoir discovered or extended by

that Non-Consent Operation as described in Article 16.5.7 (*Hydrocarbon Recoupment From Production*) remain vested in the Participating Parties. Any salvage value in excess of Complete Recoupment will be credited to all Parties according to their Working Interest and without regard to their participation status.

16.6.2 Sidetracking or Deepening a Non-Consent Well

If a Non-Participating Party participates in a Sidetracking or Deepening as provided in Article 10.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in an Exploratory Well at Initial Objective Depth*), Article 11.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in an Appraisal Well at Objective Depth*), or Article 13.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in a Development Well at Objective Depth*), and if the Participating Parties have recouped the Cost of the original well down to its Objective Depth at the time the Sidetrack or Deepening is approved by Election, then the Non-Participating Party shall not be an Underinvested Party in the Sidetracking or Deepening of that well, and the Participating Parties in the original well shall achieve Complete Recoupment under Article 16.5.7.1 (*Non-Consent Exploratory Operations, Non-Consent Appraisal Operations, and Non-Consent Development Operations That Discover or Extend a Producing Reservoir*) or Article 16.5.7.2 (*Non-Consent Development Operations in an Existing Producing Reservoir*), whichever applies.

16.7 Operations From a Subsequent Non-Consent Development System

A Party who Elected not to participate in a subsequent Development System may participate in Development Operations from that subsequent Development System. If that Non-Participating Party participates in such a Development Operation, then the Non-Participating Party shall make to the Operator a lump sum payment of any remaining Hydrocarbon Recoupment and Underinvestment under Article 16 (*Non-Consent Operations*) for which it is still liable. The Operator shall then distribute to the Participating Parties in the subsequent Development System their Participating Interest Share of the payment. Upon that payment, the Non-Participating Party will become an owner and a Participating Party in the subsequent Development System.

1 **16.8 Allocation of Development System Costs to Non-Consent Operations**

2 In the event a well is drilled from or produced through a Production System or is produced
3 through Facilities whose Participating Parties are different from the Participating Parties in
4 that well or if the Participating Parties' Participating Interest Shares in that Production
5 System or Facilities are different from their Participating Interest Shares in that well, the
6 rights of the Participating Parties in that well and the Costs to use the Production System
7 or Facilities for that well shall be determined as follows:

8 **16.8.1 Investment Charges**

9 (a) The Participating Parties in that well shall pay to the Operator a one-time
10 slot usage fee for the use of a slot on the Production System equal to two
11 percent (2%) of the Cost of the Production System; provided, however,
12 each Non-Participating Party's share of the slot usage fee shall be included
13 in the calculation of any Hydrocarbon Recoupment to which it is subject
14 as a result of the Non-Consent Operation's utilizing that slot. Within
15 fifteen (15) days of its receipt of that fee, the Operator shall distribute to
16 the Participating Parties in the Production System their Participating
17 Interest Share of that payment. For purposes of calculating the slot usage
18 fee, the total Cost of the Production System shall be reduced by .416667
19 percent per month, commencing on the date the Production System was
20 installed and continuing every month thereafter until the month actual
21 drilling operations on that well is commenced; however, the total Cost of
22 the Production System shall not be reduced by more than twenty-five
23 percent (25%) of the total Production System's costs. The Cost of
24 additions to the Production System shall be reduced in the same manner
25 commencing the first month after the addition is installed.

26 If that well is abandoned, having never produced Hydrocarbons, the right
27 of the Participating Parties in that well to use the Production System slot
28 through which the well was drilled shall terminate unless those Parties
29 commence drilling a substitute well for the abandoned well through the
30 same slot within ninety (90) days of the abandonment. If that substitute
31 well is abandoned, having never produced Hydrocarbons, the right of the
32 Participating Parties in that well to use the Production System slot through
33 which the well was drilled shall terminate.

1 The slot usage fee shall not apply to a slot deemed to be “surplus.” A slot
2 may be deemed surplus only by the unanimous agreement of the owners
3 of the Production System.

4 (b) The Participating Parties in that well shall pay to the owners of the
5 Facilities a sum equal to that portion of the total Cost of those Facilities
6 that the throughput volume of the Non-Consent Operation bears to the
7 total design throughput volume of the Facilities. Throughput volume shall
8 be estimated by the Operator in barrels produced per day (5.8 mcf of gas
9 determined at a pressure of 14.73 pounds per square inch atmospheric and
10 a temperature of sixty (60) degrees Fahrenheit equaling one barrel of oil
11 and one barrel of water equaling one barrel of oil), using an average daily
12 volume of the first three months of Hydrocarbon and water production
13 from the Non-Consent Operation. For purposes of calculating the
14 Facilities usage fee, the total Cost of the Facilities shall be reduced by
15 .41667 percent per month, commencing from the date when the Facilities
16 were installed and continuing every month thereafter until the first month
17 during which production from the Non-Consent Operation commences,
18 but the total Cost of the Facilities shall not be reduced more than twenty-
19 five percent (25%) of the total Facilities’ Cost. If a modification,
20 expansion, or addition to the Facilities is made after commencing first
21 production and before connection of the Non-Consent Operation to the
22 Facilities, the Facilities investment shall be reduced in the same manner
23 described above, from the month in which the Facilities modification,
24 expansion, or addition is completed until the first month during which
25 production from the Non-Consent Operation is commenced.

26 **16.8.2 Payments**

27 Payment of a usage fee shall not be deemed to be a purchase by the Participating
28 Parties of an additional interest in the Production System or Facilities. Payments
29 under Article 16.8.1 (*Investment Charges*) shall be due and payable on
30 commencement of initial production from the Non-Consent Operation.

31 **16.8.3 Operating and Maintenance Charges**

32 The Participating Parties in a well drilled as a Non-Consent Operation shall pay
33 all Costs necessary to connect the well to the Production System. The Costs of
34 operating and maintaining the Facilities and the Production System shall be

1 allocated equally among all active Completions served. Subsea Production
 2 System operating and maintenance Costs shall be allocated equally among all
 3 subsea well Completions served by the Subsea Production System. Operating
 4 and maintenance Costs for the Facilities shall be allocated to each well served
 5 in the proportion that the volume throughput of the well bears to the total volume
 6 throughput of all wells handled by the Facilities.

7 **16.9 Settlement of Underinvestments**

8 A Non-Participating Party shall become an Underinvested Party and become liable for
 9 settling an Underinvestment if it (a) makes a revised Election or Vote to become a
 10 Participating Party in an AFE, activity, or operation in which it originally Elected or Voted
 11 not to participate, (b) Elects to participate (i) in the Sidetracking or Deepening of a wellbore
 12 in which it did not participate to Objective Depth or (ii) in a Sidetracking or Deepening
 13 thereafter, (c) Elects to participate in a Development Plan after a Major Modification of
 14 that plan has been approved, or (d) Elects to participate in Development Operations from
 15 a subsequent Development System in which it did not participate. A Non-Participating
 16 Party in a Feasibility AFE, who elects to participate in the Selection AFE, shall
 17 automatically be deemed to have submitted to the Operator a written statement
 18 memorializing its subsequent Election to (a) participate in that Feasibility AFE, in which
 19 it originally Elected not to participate, and (b) become an Underinvested Party in regard to
 20 that AFE. A Non-Participating Party in a Selection AFE, who elects to participate in the
 21 Define AFE, which follows it, shall automatically be deemed to have submitted to the
 22 Operator a written statement memorializing its subsequent Election to (a) participate in that
 23 Selection AFE, in which it originally Elected not to participate, and (b) become an
 24 Underinvested Party in regard to that AFE. A Non-Participating Party in a Define AFE,
 25 who elects to participate in the Execution AFE, which follows it, shall automatically be
 26 deemed to have submitted to the Operator a written statement memorializing its subsequent
 27 Election to (a) participate in the Define AFE in which it originally Elected not to participate
 28 and (b) become an Underinvested Party in regard to that AFE. A Non-Participating Party
 29 in a Long Lead Development System AFE, who elects to participate in the activity or
 30 operation for which the long lead item in the Long Lead Development System AFE was
 31 procured, shall automatically be deemed to have submitted to the Operator a written
 32 statement memorializing its subsequent Election to (a) participate in that Long Lead
 33 Development System AFE, in which it originally Elected not to participate, and (b) become
 34 an Underinvested Party in regard to that AFE. Except as provided in Article 16.9.1 (*Cash*
 35 *Settlement of Underinvestment*), an Underinvested Party shall settle its Underinvestment
 36 through Disproportionate Spending. The Underinvested Party shall be responsible for and

1 pay one hundred percent (100%) of the Overinvested Parties' share of the Costs (or if there
 2 are two or more Underinvested Parties, a proportion of those Costs based on each Party's
 3 Underinvestment) in subsequent activities or operations or AFEs under this Agreement in
 4 which that Underinvested Party and one or more Overinvested Parties participate until the
 5 amount of the Underinvestment is eliminated, except under Article 13.3.1 (*Multiple*
 6 *Completion Alternatives Above and Below the Deepest Producible Reservoir*) the
 7 Underinvested Party shall be responsible for and pay one hundred percent (100%) of the
 8 Overinvested Parties' share of the Costs (or if there are two or more Underinvested Parties,
 9 a proportion of those Costs based on each Party's Underinvestment) in subsequent activities
 10 or operations or AFEs within the Unit Area in which one or more Overinvested Parties
 11 participate until the amount of the Underinvestment is eliminated.

12 **16.9.1 Cash Settlement of Underinvestment**

13 If the Parties do not plan or propose further activities or operations under this
 14 Agreement (for which Costs would be allocated to the elimination of an
 15 Underinvestment), the Underinvested Party shall pay the Overinvested Parties
 16 the remaining Underinvestment amount in cash under Exhibit "C." If
 17 Disproportionate Spending in the Unit Area does not eliminate an
 18 Underinvestment within two (2) years after the date the Underinvestment is
 19 incurred, or upon final accounting and settlement under this Agreement, or
 20 before the Underinvested Party withdraws from the Unit Area under Article 17
 21 (*Withdrawal From Agreement*), whichever comes first, the Underinvested Party
 22 shall pay the Overinvested Parties the remaining Underinvestment in cash under
 23 Article 17 (*Withdrawal From Agreement*) and Exhibit "C."

24 **ARTICLE 17 – WITHDRAWAL FROM AGREEMENT**

25 **17.1 Right to Withdraw**

26 Subject to this Article 17.1, any Party may withdraw from this Agreement (the
 27 "Withdrawing Party") by giving prior written notice to all other Parties stating its decision
 28 to withdraw ("the withdrawal notice"). The withdrawal notice shall specify an effective
 29 date of withdrawal that is at least sixty (60) days, but not more than ninety (90) days, after
 30 the date of the withdrawal notice. Within thirty (30) days of Receipt of the withdrawal
 31 notice, the other Parties may join in the withdrawal by giving written notice of that fact to
 32 the Operator ("written notice to join in the withdrawal") and upon giving written notice to
 33 join in the withdrawal are "Other Withdrawing Parties." The withdrawal notice and the
 34 written notice to join in the withdrawal are unconditional and irrevocable offers by the

1 Withdrawing Party and the Other Withdrawing Parties to convey to the Parties who do not
2 join in the withdrawal (the “Remaining Parties”) the Withdrawing Party's and the Other
3 Withdrawing Parties’ entire Working Interest in all of the Leases, Hydrocarbon production,
4 and other property and equipment owned under this Agreement.

5 **17.2 Response to Withdrawal Notice**

6 Failure to respond to a withdrawal notice is deemed a decision not to join in the withdrawal.

7 **17.2.1 Unanimous Withdrawal**

8 If all the other Parties join in the withdrawal,

- 9 (a) no assignment of Working Interests shall take place;
- 10 (b) subject to Article 18.4 (*Abandonment Operations Required by*
11 *Governmental Authority*), no further operations may be conducted under
12 this Agreement unless agreed to by all Parties;
- 13 (c) the Parties shall abandon all activities and operations within the Unit Area
14 and relinquish all of their Working Interests to the DOI within fifteen (15)
15 days of the conclusion of the thirty (30) day joining period; and
- 16 (d) notwithstanding anything to the contrary in Article 18 (*Abandonment and*
17 *Salvage*), the Operator shall:
- 18 (i) furnish all Parties a detailed abandonment plan, if applicable, and
19 a detailed cost estimate for the abandonment within sixty (60) days
20 after the conclusion of the thirty (30) day joining period; and
- 21 (ii) cease operations and begin to permanently plug and abandon all
22 wells and remove all Production Systems and Facilities in
23 accordance with the abandonment plan.

24 **17.2.2 No Additional Withdrawing Parties**

25 If none of the other Parties join in the withdrawal, then the Remaining Parties
26 must accept an assignment of their Participating Interest Share of the
27 Withdrawing Party's Working Interest, unless the Remaining Parties agree to
28 share of the Withdrawing Party’s Working Interest in a different percentage.

17.2.3 Acceptance of the Withdrawing Parties' Interests

If one or more but not all of the other Parties join in the withdrawal and become Other Withdrawing Parties, then within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) of the conclusion of the thirty (30) day joining period, each of the Remaining Parties shall submit to the Operator a written rejection or acceptance of its Participating Interest Share of the Withdrawing Party's and Other Withdrawing Parties' Working Interest. Failure to make that written rejection or acceptance shall be deemed a written acceptance. If the Remaining Parties are unable to select a successor Operator, if applicable, or if a Remaining Party submits a written rejection and the other Remaining Parties do not agree to accept one hundred percent (100%) of the Withdrawing Party's and Other Withdrawing Parties' Working Interest within thirty (30) days of the conclusion of the forty-eight (48) hour period to submit a written rejection or acceptance, the Remaining Parties will be deemed to have joined in the withdrawal, and Article 17.2.1 (*Unanimous Withdrawal*) will apply.

17.2.4 Effects of Withdrawal

Except as otherwise provided in this Agreement, after giving a withdrawal notice or a written notice to join in the withdrawal, the Withdrawing Party and Other Withdrawing Parties are not entitled to approve or participate in any activity or operation in the Unit Area, other than those activities or operations for which they retain a financial responsibility. The Withdrawing Party and Other Withdrawing Parties shall take all necessary steps to accomplish their withdrawal by the effective date referred to in Article 17.1 (*Right to Withdraw*) and shall execute and deliver to the Remaining Parties all necessary instruments to assign their Working Interest to the Remaining Parties. A Withdrawing Party and Other Withdrawing Parties shall bear all expenses associated with their withdrawal and the transfer of their Working Interest.

17.3 Limitation Upon and Conditions of Withdrawal

17.3.1 Prior Expenses

The Withdrawing Party and Other Withdrawing Parties remain liable for their remaining Underinvestments and their Participating Interest Share of the Costs of activities, operations, rentals, royalties, taxes, damages, Hydrocarbon imbalances, or other liability or expense accruing or relating to (i) obligations existing as of the effective date of the withdrawal, (ii) activities or operations

1 conducted before the effective date of the withdrawal, (iii) activities or
2 operations approved by the Withdrawing Party and Other Withdrawing Parties
3 before the effective date of the withdrawal, or (iv) activities or operations
4 commenced by the Operator under one of its discretionary powers under this
5 Agreement before the effective date of the withdrawal. Before the effective date
6 of the withdrawal, the Operator shall render a statement to the Withdrawing
7 Party and Other Withdrawing Parties for (1) their respective shares of all
8 identifiable Costs under this Article 17.3.1 and (2) their respective Participating
9 Interest Shares of the estimated current Costs of plugging and abandoning all
10 wells and removing all Production Systems, Facilities, and other materiel and
11 equipment serving the Unit Area, less their respective Participating Interest
12 Shares of the estimated salvage value of the assets at the time of abandonment,
13 as approved by Vote. This statement of expenses, Costs, and salvage value shall
14 be prepared by the Operator under Exhibit "C." Before withdrawing, the
15 Withdrawing Party and Other Withdrawing Parties shall either pay the Operator,
16 for the benefit of the Remaining Parties, the amounts allocated to them in the
17 statement or provide security satisfactory to the Remaining Parties for all
18 obligations and liabilities they have incurred and all obligations and liabilities
19 attributable to them before the effective date of the withdrawal. All liens,
20 charges, and other encumbrances, including but not limited to overriding
21 royalties, net profits interest, and production payments, which the Withdrawing
22 Party and Other Withdrawing Parties placed (or caused to be placed) on their
23 Working Interest shall be fully satisfied or released prior to the effective date of
24 its withdrawal (unless the Remaining Parties are willing to accept the Working
25 Interest subject to those liens, charges, and other encumbrances).

26 **17.3.2 Confidentiality**

27 The Withdrawing Party and Other Withdrawing Parties will continue to be
28 bound by the confidentiality provisions of Article 7 (*Confidentiality of Data*)
29 after the effective date of the withdrawal but will have no further access to
30 technical information relating to activities or operations under this Agreement.
31 The Withdrawing Party and Other Withdrawing Parties are not required to return
32 to the Remaining Parties Confidential Data acquired prior to the effective date
33 of the withdrawal.

17.3.3 Emergencies and Force Majeure

No Party may withdraw during a Force Majeure or emergency that poses a threat to life, safety, property, or the environment but may withdraw from this Agreement after termination of the Force Majeure or emergency. The Withdrawing Party and Other Withdrawing Parties remain liable for their share of all Costs and liabilities arising from the Force Majeure or emergency, including but not limited to the drilling of relief wells, containment and cleanup of oil spills and pollution, and all Costs of debris removal made necessary by the Force Majeure or emergency.

ARTICLE 18 – ABANDONMENT AND SALVAGE**18.1 Abandonment of Wells**

Any Participating Party may propose the permanent plugging and abandonment of a well that has produced Hydrocarbons (other than as a result of Production Testing) by notifying the other Participating Parties. Any Participating Party that fails to respond within the applicable response period shall be deemed to have approved the permanent plugging and abandonment of the well. If the permanent plugging and abandonment proposal is unanimously agreed to by the Participating Parties in that well, the well shall be permanently plugged and abandoned under the applicable regulations at the Cost and risk of the Participating Parties. If the Participating Parties do not unanimously agree to permanently plug and abandon the well, the Operator shall prepare an estimate of the Costs of the permanent plugging and abandonment of the well less the estimated salvage value of the well, as determined under Exhibit “C,” and the Participating Party desiring to permanently plug and abandon the well shall pay the Operator, for the benefit of the non-abandoning Participating Parties, its share of that estimate within thirty (30) days of its Receipt of the estimate. If an abandoning Participating Party’s respective share of the estimated salvage value is greater than its share of the estimated Costs of the permanent plugging and abandonment, the Operator, on behalf of the non-abandoning Participating Parties, shall pay to the abandoning Participating Party a sum equal to the deficiency within thirty (30) days of the abandoning Participating Party’s Receipt of the estimate. Each Participating Party desiring to abandon a well shall assign to each non-abandoning Participating Party in that well a portion of its Working Interest in that well and the equipment therein and the Hydrocarbon production therefrom equal to the non-abandoning Party’s Participating Interests in that well divided by the entire Participating Interests of the non-abandoning Parties in that well. That assignment shall be effective as of the date of the abandoning Party’s response to the well abandonment proposal. The abandoning

1 Party shall assume and be liable for all obligations pertaining to that well, except liability
2 for payments under this Article 18.1, prior to the effective date of its assignment to the non-
3 abandoning Parties. The abandoning Party shall not assume and be liable for any obligations
4 pertaining to that well, except liability for payments under this Article 18.1, as of the
5 effective date of its assignment to the non-abandoning Parties.

6 **18.2 Abandonment of Equipment**

7 Any Participating Party in a Production System or Facilities or an enhanced recovery
8 and/or pressure maintenance program described in Article 12.11 (*Enhanced Recovery*
9 *and/or Pressure Maintenance Program Proposals*) (the "Equipment") may propose the
10 abandonment and disposition of that Equipment. If that proposal is unanimously agreed to
11 by the Participating Parties, the Operator shall abandon and dispose of that Equipment at
12 the Cost and risk of the Participating Parties. If a Participating Party fails to respond within
13 the applicable response period, that Participating Party shall be deemed to have approved
14 the abandonment and disposal of the Equipment. If all Participating Parties do not approve
15 abandoning and disposing of the Equipment, the Operator shall prepare an estimate of the
16 Costs of abandonment, removal, site clearance, and disposition of the Equipment, less the
17 estimated salvage value of the Equipment, as determined under Exhibit "C," and the
18 Participating Party desiring to abandon and dispose of the Equipment shall pay the
19 Operator, for the benefit of the non-abandoning Participating Parties, its share of that
20 estimate within thirty (30) days of its Receipt of the estimate. If an abandoning
21 Participating Party's respective share of the estimated salvage value is greater than its share
22 of the estimated costs, the Operator, on behalf of the non-abandoning Participating Parties,
23 shall pay to the abandoning Participating Party a sum equal to the surplus within thirty (30)
24 days of the abandoning Participating Party's Receipt of the estimate. Each Participating
25 Party desiring to abandon the Equipment shall assign to each non-abandoning Participating
26 Party in the Equipment a portion of its Working Interest in the Equipment equal to the non-
27 abandoning Party's Participating Interests in the Equipment divided by the entire
28 Participating Interests of the non-abandoning Parties in the Equipment. That assignment
29 shall be effective as of the date of the abandoning Party's response to the Equipment
30 abandonment proposal. The abandoning Party shall assume and be liable for all obligations
31 pertaining to the Equipment, except liability for payments under this Article 18.2, prior to
32 the effective date of its assignment to the non-abandoning Parties. The abandoning Party
33 shall not assume and be liable for any obligations pertaining to the Equipment, except
34 liability for payments under this Article 18.2, as of the effective date of its assignment to
35 the non-abandoning Parties.

1 **18.3 Disposal of Surplus Materiel**

2 The Operator may classify materiel acquired under this Agreement as surplus when the
3 Operator deems it is no longer needed in present or foreseeable activities or operations.
4 The Operator shall determine the value and Cost of disposing of the materiel under Exhibit
5 “C.” If the materiel is classified as junk or if the value, less the Cost of disposal, is less
6 than or equal to five hundred thousand dollars (\$500,000), the Operator may dispose of the
7 surplus materiel in a manner it deems appropriate. If the value, less the Cost of disposal of
8 the surplus materiel, is greater than five hundred thousand dollars (\$500,000), the Operator
9 shall give written notice thereof to the Parties owning the materiel, and the surplus materiel
10 shall be disposed of in accordance with the method of disposal approved by the Parties
11 owning the materiel. Proceeds from the sale or transfer of surplus materiel shall be
12 promptly credited to each Party in proportion to its ownership of the materiel at the time
13 of the retirement or disposition of the materiel.

14 **18.4 Abandonment Operations Required by Governmental Authority**

15 The Operator shall conduct the abandonment and removal of any Equipment [as defined in
16 Article 18.2 (*Abandonment of Equipment*)] required by a governmental authority, and the
17 Costs, risks, and net proceeds of that abandonment and removal will be shared by the
18 Participating Parties in that Equipment [as defined in Article 18.2 (*Abandonment of*
19 *Equipment*)] according to their Participating Interest Share.

20 **ARTICLE 19 – RENTALS, ROYALTIES, AND MINIMUM ROYALTIES**

21 **19.1 Burdens on Hydrocarbon Production**

22 If a Party has previously created or hereafter creates an overriding royalty, production
23 payment, carried or reversionary working interest, net profits interest, mortgage, lien,
24 security interest, or other type of burden on Hydrocarbon production, including, but not
25 limited to, agreements affecting the marketing, processing, or transportation of
26 Hydrocarbon Production, other than the lessor's royalty stipulated in a Lease (a “Lease
27 Burden”), the Party creating the Lease Burden shall assume and bear all liabilities and
28 obligations of the Lease Burden regardless of that Party’s participation status and
29 notwithstanding an assignment under this Agreement of all or part of that Party’s Working
30 Interest to another party. The Party creating the Lease Burden shall indemnify, release,
31 defend, and hold all other Parties harmless from all Claims and demands for payment
32 asserted by the owners of the Lease Burden.

1 **19.1.1 Subsequently Created Lease Burdens**

2 Notwithstanding any contrary provision of this Agreement, if a Party, after
3 executing this Agreement, creates a Lease Burden, that Lease Burden shall be
4 made specifically subject to this Agreement. If the Party owning the Working
5 Interest from which a Lease Burden is created (a) fails to pay when due its share
6 of Costs, (b) withdraws from this Agreement, or (c) Elects to abandon a well
7 under Article 18.1 (*Abandonment of Wells*), then the beneficiary of the Lease
8 Burden will be chargeable with Costs equal to its fractional interest in gross
9 production and the security rights created in Exhibit "F" will be applicable
10 against that Lease Burden. The Operator has the right to enforce the security
11 rights (and all other rights granted under this Agreement) against the beneficiary
12 of a Lease Burden for the purpose of collecting Costs chargeable to the Lease
13 Burden. The rights of the beneficiary of a Lease Burden are subordinate to the
14 rights of the Parties granted by Exhibit "F."

15 **19.2 Payment of Rentals and Royalties**

16 The Operator shall make all rental payments for the Leases on behalf of the Parties. The
17 Operator shall use reasonable care to make proper and timely payment of the rental
18 payments, all minimum royalties, and all other similar payments accruing under the Leases.
19 Upon Receipt of proper evidence of those payments and the Operator's invoice for its
20 proportionate share of those payments, each Non-Operating Party shall reimburse the
21 Operator for the Non-Operating Party's Working Interest share of those payments. In the
22 event the Operator fails to make proper payment of a rental, minimum royalty, or other
23 similar payment accruing under a Lease through mistake or oversight where that payment
24 is required to continue that Lease in force and effect, the Operator will not be liable to the
25 other Parties for any resulting damages or any loss that results from the non-payment,
26 unless that non-payment is due to the Operator's Gross Negligence or Willful Misconduct,
27 as determined by a final judicial decision or a final decision under binding arbitration. The
28 loss of a Lease or interest therein that results from the Operator's failure to pay, or the
29 Operator's erroneous payment of, a rental, minimum royalty, or other similar payments is
30 a joint loss, and there will be no readjustment of Working Interests as a consequence
31 thereof. For production delivered in-kind by the Operator to a Non-Operating Party or to
32 a third party for the account of a Non-Operating Party, the Non-Operating Party shall
33 provide the Operator with information about the proceeds or value of the production in
34 order for the Operator to make payments of all minimum royalties due.

19.2.1 Non-Participation in Payments

If a Party notifies the other Parties, in writing at least sixty (60) days before the date the payment is due of its intention not to pay its share of a rental, minimum royalty, or other similar payment, that Party shall be deemed to have given a withdrawal notice under Article 17 (*Withdrawal From Agreement*), and must withdraw from the entire Unit Area, not just the Lease on which the payment is due. Upon this occurrence, the Operator shall make the payment solely for the benefit of the Remaining Parties, as defined in Article 17 (*Withdrawal From Agreement*), and the Remaining Parties shall reimburse the Operator for their respective shares of the payment, based on the procedures in Article 17.2 (*Response to Withdrawal Notice*).

19.2.2 Royalty Payments

Each Party shall pay or cause to be paid all royalty and other amounts payable, which are based on its share of Hydrocarbon production. Adjustments to those payments shall be made among the Parties in accordance with Exhibit "D" (Gas Balancing Agreement). When the Participating Parties are recouping their Costs from a Non-Consent Operation and an applicable premium under Article 16.5 (*Percentage Hydrocarbon Recoupment for Non-Consent Operations*), each of the Participating Parties shall pay or cause to be paid the Lease royalty on the portion of the Hydrocarbon Recoupment to which it is entitled.

ARTICLE 20 – TAXES**20.1 Internal Revenue Provision**

Notwithstanding any provision in this Agreement to the effect that the rights and liabilities of the Parties are several, not joint or collective, and that the Agreement and the activities and operations under this Agreement do not constitute a partnership under state law, each Party elects to be excluded from the application of all or any part of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as amended, or similar provisions of applicable state laws regardless of whether for federal income tax purposes this Agreement and the activities and operations under this Agreement are regarded as a partnership.

20.2 Other Taxes and Assessments

The Operator shall file all tax returns and reports required by law and pay all applicable taxes [other than income or other taxes provided in Article 20.2.2 (*Production and*

1 *Severance Taxes*)] and assessments levied with respect to activities and operations
2 conducted under this Agreement. The Parties shall promptly furnish the Operator with
3 copies of all notices, assessments, and statements received pertaining to taxes to be paid by
4 the Operator. The Operator will charge each Party its Working Interest share of all taxes
5 and assessments paid [other than income or other taxes provided in Article 20.2.2
6 (*Production and Severance Taxes*)] and, upon written request from a Non-Operating Party,
7 provide copies of all tax returns, reports, tax statements, and receipts for the taxes. The
8 Operator shall not allow any taxes to become delinquent unless unanimously agreed to by
9 the Parties.

10 **20.2.1 Property Taxes**

11 The Operator shall render for ad valorem property tax purposes all personal
12 property and/or real property covered by this Agreement as may be subject to
13 that taxation and shall pay those property taxes for the benefit of each Party. The
14 Operator shall timely and diligently protest a valuation of the Leases for tax
15 purposes it deems unreasonable. Pending final determination of the valuation
16 of the Leases for tax purposes, unless unanimously agreed to by the Parties to
17 the contrary under Article 20.2 (*Other Taxes and Assessments*), the Operator
18 shall, on or before the due date, pay under protest taxes on the Leases at the
19 assessed value of the Leases. If upon final determination, additional taxes are
20 due or if interest or a penalty has accrued as a result of the protest, the Operator
21 shall pay the taxes, interest, and penalty and shall charge each Party its Working
22 Interest share of the taxes, interest, and penalty under Exhibit “C.”

23 **20.2.2 Production and Severance Taxes**

24 Each Party shall pay, or cause to be paid, all production, excise, severance, and
25 other similar taxes due on its share of Hydrocarbon production. Each Party shall,
26 upon a written request from the Operator, provide evidence that those taxes have
27 been paid.

28 **ARTICLE 21 – INSURANCE AND BONDS**

29 **21.1 Insurance**

30 The Parties shall maintain the insurance coverage specified in Exhibit “B.” Insurance
31 purchased by the Operator pursuant to Article I of Exhibit “B” shall be charged to the Joint
32 Account. No other insurance shall be carried for the benefit of the Parties under this
33 Agreement unless otherwise agreed by the Parties.

21.2 Bonds

The Costs of those bonds or financial guarantees acquired exclusively for the conduct of activities and operations under this Agreement shall be charged to the Joint Account, including an amount equivalent to the reasonable cost of that bond or financial guarantee if the Operator provides that bond or guarantee itself and does not engage a third party to do so. The Operator shall require all contractors to obtain and maintain all bonds required by an applicable law, regulation, or rule.

ARTICLE 22 – LIABILITY, CLAIMS, AND LAWSUITS**22.1 Individual Obligations**

The obligations, duties, and liabilities of the Parties under this Agreement are several, but limited in proportion to each Party's Participating Interest Share, and not joint and several or collective; and, except as otherwise provided in Article 20 (*Taxes*), nothing in this Agreement shall be construed to create a partnership, joint venture, association, or other form of business entity recognizable in law for any purpose. In their relations with each other under this Agreement, the Parties are not fiduciaries, but rather are free to act at arm's length in accordance with their own respective interests.

22.2 Notice of Claim

If a Claim is made against or by a Party, that Party shall give written notice of the Claim to the other Parties as soon as reasonably practicable.

22.3 Settlements

The Operator may settle a Claim, or multiple Claims, arising out of the same incident, involving activities or operations under this Agreement or affecting the Leases or the Unit Area, if the aggregate expenditure does not exceed one million dollars (\$1,000,000) and if the payment is in complete settlement of these Claims. If the amount required for settlement exceeds this amount, the Parties shall determine the further handling of the Claims under Article 22.4 (*Defense of Claims*).

22.4 Defense of Claims

The Operator shall supervise the handling, conduct, and prosecution of all Claims involving activities or operations under this Agreement or affecting the Leases or the Unit Area. Claims may be settled in excess of the amount specified in Article 22.3 (*Settlements*) as follows: (i) if the aggregate expenditure of the settlement is below three million dollars (\$3,000,000) it must be approved by Vote; and (ii) if the aggregate expenditure of the settlement is at or above three million dollars (\$3,000,000) it must receive unanimous

1 approval of the Participating Parties in the activity or operation out of which the Claim
2 arose, but a Party may independently settle a Claim or the portion of a Claim which is
3 attributable to its Participating Interest Share alone as long as that settlement does not
4 directly and adversely affect the interest or rights of the other Participating Parties. No
5 charge shall be made for services performed by the staff attorneys of a Party, but all other
6 expenses incurred by the Operator in the prosecution or defense of Claims for the Parties,
7 together with the amount paid to discharge a final judgment or other final adjudication or
8 determination of the Claim, are Costs and shall be paid by the Parties in proportion to their
9 Participating Interest Share in the activity or operation out of which the Claim arose. The
10 employment of outside counsel, but not the selection of that counsel, requires approval by
11 Vote of the Participating Parties in the activity or operation out of which the Claim arose.
12 If the use of outside counsel is approved, the fees and expenses incurred as a result thereof
13 shall be charged to the Parties in proportion to their Participating Interest Share in the
14 activity or operation out of which that Claim arose. Each Party has the right to hire its own
15 outside counsel at its sole cost with respect to its own defense.

16 **22.5 Liability for Damages**

17 Unless specifically provided otherwise in this Agreement, liability for losses, damages,
18 Costs, expenses or Claims involving activities or operations under this Agreement or
19 affecting the Leases or the Unit Area which are not covered by or in excess of the insurance
20 carried for the Joint Account shall be borne by each Party in proportion to its Participating
21 Interest Share in the activity or operation out of which such liability arises, except that
22 when liability results from the Gross Negligence or Willful Misconduct of a Party, such
23 Party shall be solely responsible for liability resulting from its Gross Negligence or Willful
24 Misconduct.

25 In no event shall an assertion or allegation of Gross Negligence or Willful Misconduct of
26 a Party constitute a defense to the other Parties' obligations to timely reimburse the
27 Operator for its proportionate share of losses, damages, Costs, expenses and Claims in
28 accordance with the provisions of Exhibit "C" (*Accounting Procedure*) to this Agreement.
29 To the contrary, all Parties shall timely pay their proportionate share of such losses,
30 damages, Costs, expenses and Claims until such assertion or allegation results in a final,
31 non-appealable judgment or final determination of the arbitrators pursuant to Exhibit "H"
32 (*Dispute Resolution Procedure*), subject to reimbursement or other adjustment for amounts
33 paid upon such final judgment or arbitration determination, if appropriate. **UNDER NO**
34 **CIRCUMSTANCES WILL A PARTY BE LIABLE TO ANOTHER PARTY FOR**
35 **PUNITIVE DAMAGES, CONSEQUENTIAL, INDIRECT, UNFORSEEN, LOSS OF**

1 PROFIT, OR OTHER INDIRECT OR PENALTY DAMAGES EITHER IN LAW OR
2 EQUITY.

3 **22.6 Indemnification for Non-Consent Operations**

4 TO THE EXTENT ALLOWED BY LAW, THE PARTICIPATING PARTIES WILL
5 HOLD THE NON-PARTICIPATING PARTIES (AND THEIR AFFILIATES,
6 AGENTS, INSURERS, DIRECTORS, OFFICERS, AND EMPLOYEES)
7 HARMLESS AND RELEASE, DEFEND, AND INDEMNIFY THEM AGAINST
8 ALL CLAIMS, DEMANDS, LIABILITIES, REGULATORY DECREES, AND
9 LIENS FOR ENVIRONMENTAL POLLUTION AND PROPERTY DAMAGE OR
10 PERSONAL INJURY, INCLUDING SICKNESS AND DEATH, CAUSED BY OR
11 OTHERWISE ARISING OUT OF NON-CONSENT OPERATIONS, AND ANY
12 LOSS AND COST SUFFERED BY A NON-PARTICIPATING PARTY AS AN
13 INCIDENT THEREOF. IF AN INDEMNITY IN THIS AGREEMENT IS
14 DETERMINED TO VIOLATE LAW OR PUBLIC POLICY, THAT INDEMNITY
15 SHALL THEN BE ENFORCEABLE ONLY TO THE MAXIMUM EXTENT
16 ALLOWED BY LAW.

17 **22.7 Damage to Reservoir and Loss of Reserves**

18 NOTWITHSTANDING ANY CONTRARY PROVISION OF THIS AGREEMENT,
19 NO PARTY IS LIABLE TO ANY OTHER PARTY FOR DAMAGE TO A
20 RESERVOIR OR LOSS OF HYDROCARBONS, NOR DOES A PARTY
21 INDEMNIFY ANY OTHER PARTY FOR THAT DAMAGE OR LOSS, EXCEPT
22 IF THAT DAMAGE OR LOSS ARISES FROM A PARTY'S GROSS
23 NEGLIGENCE OR WILLFUL MISCONDUCT.

24 **22.8 Non-Essential Personnel**

25 UNLESS OTHERWISE MUTUALLY AGREED BY THE PARTIES IN WRITING,
26 IN THE EVENT A PARTY REQUESTS TRANSPORTATION OR ACCESS TO
27 ANY DRILLING RIG, PRODUCTION SYSTEM, VESSEL, OR OTHER
28 FACILITY USED FOR ACTIVITIES OR OPERATIONS UNDER THIS
29 AGREEMENT FOR ANY PERSON WHO IS NOT EMPLOYED BY,
30 CONTRACTED BY, OR REPRESENTING SUCH PARTY IN CONNECTION
31 WITH AN ACTIVITY OR OPERATION CONDUCTED PURSUANT TO THIS
32 AGREEMENT, OTHER THAN GOVERNMENTAL OFFICIALS OR
33 REPRESENTATIVES OF GOVERNMENTAL OR REGULATORY AGENCIES
34 ("NON-ESSENTIAL PERSONNEL"), THE PARTY REQUESTING SUCH

1 TRANSPORTATION OR ACCESS AGREES TO PROTECT, INDEMNIFY,
2 RELEASE, DEFEND, AND HOLD HARMLESS THE OTHER PARTIES AND
3 THEIR RESPECTIVE OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES,
4 AGENTS, CONTRACTORS, SUBCONTRACTORS, INVITEES, INSURERS, AND
5 REPRESENTATIVES FROM AND AGAINST ALL CLAIMS, DEMANDS,
6 CAUSES OF ACTION, JUDGMENTS, LIABILITIES, CONTRACTUAL
7 LIABILITIES, AND OTHER COSTS (INCLUDING, WITHOUT LIMITATION,
8 COURT COSTS, JUDICIAL INTEREST, FINES AND PENALTIES OTHER
9 THAN FOR CRIMINAL ACTS, LITIGATION EXPENSES, AND REASONABLE
10 ATTORNEYS' FEES) FOR DAMAGE TO, DESTRUCTION OR LOSS OF
11 PROPERTY, AND FOR PERSONAL INJURY OR DEATH OF PERSONS, AND
12 FOR DAMAGE OR HARM TO THE ENVIRONMENT (INCLUDING WITHOUT
13 LIMITATION, SPILL RESPONSE, ENVIRONMENTAL POLLUTION AND
14 CONTAMINATION AND CLEAN-UP COSTS) ARISING OUT OF OR RELATED
15 IN ANY WAY TO THE NEGLIGENCE, FAULT, OR LIABILITY WITHOUT
16 FAULT OF THE NON-ESSENTIAL PERSONNEL BROUGHT BY OR ON
17 BEHALF OF ANY PARTY WHOMSOEVER (INCLUDING, WITHOUT
18 LIMITATION, ALL THIRD PARTIES AND GOVERNMENTAL AGENCIES),
19 WITHOUT REGARD TO THE CAUSES THEREOF, INCLUDING PRE-
20 EXISTING CONDITIONS, THE UNSEAWORTHINESS OF ANY VESSEL, THE
21 STRICT LIABILITY, NEGLIGENCE, OR OTHER FAULT OF ANY PARTY,
22 REGARDLESS OF WHETHER THE NEGLIGENCE BE SOLE, JOINT, OR
23 CONCURRENT, ACTIVE OR PASSIVE, EXCEPT IF CAUSED BY THE GROSS
24 NEGLIGENCE OR WILLFUL MISCONDUCT OF THE PARTY SO
25 INDEMNIFIED AND PROTECTED, AS FOUND BY A FINAL JUDICIAL
26 DECISION OR A FINAL DECISION UNDER BINDING ARBITRATION.

27 **22.9 Dispute Resolution Procedure**

28 Any claim, controversy, or dispute arising out of, relating to, or in connection with this
29 Agreement or an activity or operation conducted under this Agreement shall be resolved
30 under the Dispute Resolution Procedure in Exhibit "H" to this Agreement.

ARTICLE 23 – CONTRIBUTIONS

23.1 Contributions from Third Parties

A “Contribution” means a bottom hole cash contribution, dry hole cash contribution, or acreage contribution from third parties as consideration for data from wells or well operations on the Unit Area. This Article 23 does not apply to the following:

- (a) Trades of Confidential Data for other similar geophysical, geological, geochemical, drilling, or engineering data from third parties. Those trades of Confidential Data are subject to Article 7.2.1 (*Trades of Confidential Data*);
- (b) Contributions received as consideration for entering into a contract for the sale of Hydrocarbon production, as proceeds of loans, or as proceeds of other financial arrangements;
- (c) A farmout of all or a portion of a Party’s Working Interest, which is subject to Article 24 (*Transfer of Interest and Preferential Right to Purchase*).

23.2 Methods of Obtaining Contributions

The Operator shall negotiate all Contributions on behalf of the Participating Parties in the well or well operation. A Contribution may be obtained in the following ways:

- (a) Any Participating Party in a well or well operation may propose that the Participating Parties in that well or well operation seek a Contribution from a third party towards that well or well operation.
- (b) If a Participating Party in a well or well operation receives a Contribution offer for that well or well operation from a third party, that Party shall notify all other Participating Parties in that well or well operation of the terms of that offer within five (5) days of its Receipt of that offer.

23.3 Counteroffers

If a third party makes a Contribution counteroffer to the Participating Parties’ Contribution offer, or if a Participating Party proposes to make a Contribution counteroffer to a third party Contribution offer, the Operator shall submit the Contribution counteroffer to the other Participating Parties.

1 **23.4 Approval of Contributions**

2 A Contribution proposal, a Contribution counteroffer to a third party Contribution offer,
3 an acceptance of a Contribution offer from a third party, or a Contribution counteroffer
4 from a third party requires the unanimous agreement of the Participating Parties in the well
5 or well operation affected by the Contribution. Within fifteen (15) days of their Receipt of
6 a notice of a Contribution proposal, Contribution offer, or Contribution counteroffer, those
7 Participating Parties shall respond to the Operator.

8 **23.5 Cash Contributions**

9 If a bottom hole or dry hole cash Contribution is offered and accepted, that cash
10 Contribution shall be paid to the Operator, and the Operator shall credit the amount of the
11 cash Contribution against the Costs of that well or well operation to each Participating
12 Party in proportion to its Participating Interest Share.

13 **23.6 Acreage Contributions**

14 Any acreage Contribution, which is offered and accepted under this Article 23
15 (*Contributions*), shall be conveyed to the Participating Parties in the well or well operation
16 in proportion to their Participating Interest Share therein. The leases or portions of leases
17 included in the acreage Contribution shall not be added to Exhibit “A” or included in the
18 Unit Area.

19 **23.6.1 Two or More Parties Own One Hundred Percent of the Acreage**
20 **Contribution**

21 If two or more Parties participate in the acreage Contribution and the
22 conveyances to effectuate it, and if, after the conveyances are approved by the
23 DOI, those Parties own one hundred percent (100%) of the ownership interest
24 in the contributed acreage, then (a) the contributed acreage shall be deemed to
25 be governed by an operating agreement incorporating identical provisions as the
26 provisions in this Agreement, except to the extent they are clearly inappropriate,
27 (b) the execution of the operating agreement by the Parties participating in the
28 acreage Contribution shall be considered a mere formality only, (c) the
29 designated operator shall promptly prepare the operating agreement, and (d) the
30 Parties participating in the acreage Contribution shall promptly execute the
31 operating agreement once it is prepared.

1 **23.6.2 Two or More Parties Own Less Than One Hundred Percent of the Acreage**
 2 **Contribution**

3 If two or more Parties participate in the acreage Contribution and the
 4 conveyances to effectuate it, and if, after the conveyances are approved by the
 5 DOI, those Parties own less than one hundred percent (100%) of the ownership
 6 interest in the contributed acreage, then those Parties shall use reasonable efforts
 7 to negotiate and execute with the other Working Interest owners in the
 8 contributed acreage an operating agreement covering the contributed acreage,
 9 which is as close in form to this Agreement as possible.

10 **ARTICLE 24 – TRANSFER OF INTEREST AND**
 11 **PREFERENTIAL RIGHT TO PURCHASE**

12 **24.1 Transfer of Interest**

13 Each Party may make a Transfer of Interest of all or part of its Working Interest and its
 14 rights and obligations under this Agreement either to a third party or to another Party in
 15 accordance with this Agreement, provided that:

16 (a) except for the conditions set forth in (i) and (ii) of Article 24.1.1 (*Exceptions to Transfer*
 17 *Notice*), any Transfer of Interest shall be preceded by a Transfer Notice, and

18 (b) made to a party that is financially responsible and capable of assuming the
 19 corresponding obligations under this Agreement unless:

20 (i) the Transfer of Interest is made pursuant to Articles 16 (*Non-Consent Operations*),
 21 17 (*Withdrawal From Agreement*), 18 (*Abandonment and Salvage*), or 24.2.2
 22 (*Exercise of Preferential Right to Purchase*).

23
 24 No Transfer of Interest shall release a Party from its obligations and liabilities under this
 25 Agreement, including its payment obligations, which are incurred or have accrued prior to
 26 the effective date of that Transfer of Interest and the security rights under Article 6.3
 27 (*Security Rights*) shall continue to burden the Working Interest transferred and to secure
 28 the payment of any retained obligations and liabilities. Once a Transfer of Interest becomes
 29 effective under Article 24.1.2 (*Effective Date of Transfer of Interest*), except for a Transfer
 30 of Interest as a result of a merger, reorganization or consolidation or to an Affiliate, the
 31 transferor shall not be responsible for any obligations, debts, or liabilities under this

1 Agreement, which accrue or are incurred by the Parties on or after the effective date of that
2 Transfer of Interest.

3 **24.1.1 Exceptions to Transfer Notice**

4 Notwithstanding any contrary provision of this Agreement, the Transfer Notice
5 is not required: (i) when a Party proposes to mortgage, pledge, hypothecate, or
6 grant a security interest in all or a portion of its Working Interest (including
7 assignments of Hydrocarbon production executed as further security for the debt
8 secured by that security device), and/or its Participating Interest Share of any
9 Production Systems, Facilities, or equipment; or (ii) when any interest is
10 conveyed in accordance with Articles 16 (*Non-Consent Operations*), 17
11 (*Withdrawal From Agreement*), or 18 (*Abandonment and Salvage*). However,
12 the Party creating an encumbrance under (i) above remains liable for all
13 obligations under and pursuant to such encumbrance and an encumbrance
14 arising from the financing transaction shall be expressly made subject and
15 subordinated to this Agreement.

16 **24.1.2 Effective Date of Transfer of Interest**

17 The effective date of a Transfer of Interest shall not be more than one hundred
18 eighty (180) days prior to the date of receipt of the Transfer Notice nor more
19 than one hundred eighty (180) days, after the date of receipt of the Transfer
20 Notice, unless such requirement is waived by the Parties in writing. A Transfer
21 of Interest, other than those provided in Article 17.1 (*Right to Withdrawal*) and
22 Article 24.1.1 (*Exceptions to Transfer Notice*), is effective and shall be binding
23 upon the Parties at the latest date of occurrence of all of the following: (i) the
24 transferor or transferee provides all remaining Parties with a photocopy of the
25 fully executed documents evidencing the Transfer of Interest and an executed
26 DOI Form 1123, "Designation of Operator," and an "Application for
27 Certification of Oil Spill Responsibility" form and (ii) evidence of receipt of all
28 necessary approvals by the DOI. The Parties shall promptly undertake all
29 reasonable actions necessary to secure those approvals and shall execute and
30 deliver all documents necessary to effectuate that Transfer of Interest. All costs
31 attributable to a Transfer of Interest are the sole obligation of the transferring
32 Party.

1 **24.1.3 Maintenance of Uniform Interest and Minimum Transfer of Interest**

2 Except as otherwise provided in this Agreement, a Transfer of Interest shall
3 cover an undivided Working Interest in the entire Unit Area, including such
4 undivided interest of the Party in all leases, wells, equipment, Production and
5 Development Systems, Facilities, Hydrocarbons and other property, both real
6 and personal within the Unit Area. Prior to the approval of the Execution AFE
7 for the initial Development System, no Transfer of Interest shall be made that is
8 not at least an undivided ten percent (10%) Working Interest, unless the Parties
9 unanimously agree to a different minimum Transfer of Interest. After the
10 Execution AFE Election on the initial Development System, a Transfer of
11 Interest to a third party shall be limited to a minimum Working Interest of ten
12 percent (10%), unless the Parties unanimously agree to a different minimum
13 Transfer of Interest.

14 **24.1.4 Form of Transfer of Interest**

15 Any Transfer of Interest shall incorporate provisions that the Transfer of Interest
16 is subordinate to and made expressly subject to this Agreement and provide for
17 the assumption by the transferee of the performance of all of the transferring
18 Party's obligations under this Agreement, except as to any obligation that the
19 transferring Party may remain liable for, if applicable, in accordance with Article
20 24.1. Any Transfer of Interest not in compliance with this Article 24.1.4 is
21 voidable by the non-transferring Parties.

22 **24.1.5 Warranty**

23 Any Transfer of Interest, vesting, or relinquishment of Working Interest between
24 the Parties under this Agreement shall be made without warranty of title, except
25 as to person claiming by, through or under the transferor, but not otherwise.

26 **24.2 Preferential Right to Purchase**

27 Any Transfer of Interest shall be subject to the following provisions:

28 **24.2.1 Notice of Proposed Transfer of Interest**

29 Subject to Article 24.2.3 (Transfer of Interest Not Affected by the Preferential
30 Right to Purchase), when a Party and a prospective transferee execute a binding
31 agreement for a proposed Transfer of Interest, the transferring Party shall
32 provide to the other Parties a Transfer Notice. In the case of a Package Sale of
33 oil and gas interests that includes all or part of the assigning Party's Working
34 Interest, and if the proposed Transfer of Interest does not meet the criteria set

1 forth in Article 24.2.3.(c)(i), the Working Interest that is subject to the Transfer
 2 of Interest shall be separately valued and the transfer notice shall state the
 3 monetary value attributed to the Working Interest by that prospective assignee.
 4 Article 24.2 (*Preferential Right to Purchase*) shall apply only to the Working
 5 Interest that is subject to the Transfer of Interest.

6 **24.2.2 Exercise of Preferential Right to Purchase**

7 For a period of thirty (30) days from receipt of the Transfer Notice (“PRP
 8 Period”), each non-transferring Party may exercise its preferential right to
 9 purchase its Participating Interest Share of the Working Interest offered (on the
 10 same terms and conditions, or on equivalent terms for a non-cash transaction as
 11 stated in the Transfer Notice) without reservations or conditions by written
 12 notice of that fact to all of the Parties. No Party has a right or obligation under
 13 this Article 24.2 to acquire any asset other than a Working Interest (including a
 14 corresponding interest in its Participating Interest Share of any Facilities,
 15 Production Systems, wells, equipment, and/or other property located on the Unit
 16 Area or governed by this Agreement), regardless of whether the proposed
 17 transaction is a Package Sale.

18 Upon expiration of the PRP Period, if:

- 19 (i) none of the non-transferring Parties elects to exercise its preferential
 20 right to purchase its Participating Interest Share of the Working Interest
 21 offered or the non-transferring Parties, who wish to exercise their
 22 preferential right to purchase, do not agree to pay the full consideration
 23 (either the stipulated cash consideration or the equivalent cash value) for
 24 the Transfer of Interest and accept all of the other terms of the third party
 25 offer as provided in the Transfer Notice, then the transferring Party shall
 26 be free to complete the proposed Transfer of Interest on the terms
 27 disclosed in the Transfer Notice; or
- 28 (ii) all of the non-transferring Parties agree to pay the full consideration,
 29 either the stipulated cash consideration or the equivalent cash value
 30 determined pursuant to Article 24.2.1 (*Notice of Proposed Transfer of*
 31 *Interest*), if applicable, for the Transfer of Interest and accept all of the
 32 other terms of the third party offer as it pertains to the Transfer of Interest
 33 only, the transferring Party shall transfer the Working Interest to the non-

transferring Parties who exercised their preferential right to purchase in accordance with this Article 24; or

(iii) one or more, but not all, of the non-transferring Parties elect to exercise its[their] preferential right to purchase the Working Interest offered, such electing Party(ies) shall determine amongst themselves the sharing of the Working Interest offered that is attributable to the non-electing Party(ies), with each electing Party having the right to its proportionate share, in an effort to fully subscribe the Working Interest offered. In such an instance, the electing Parties shall have an additional ten (10) days after the expiration of the PRP Period to jointly provide written notice to all non-electing Parties and the transferring Party stating that (i) all of the Working Interest offered has been fully subscribed stating the breakdown by Party as to the Working Interest to be acquired by each Party or (ii) the electing Parties have failed to fully subscribe the Working Interest offered and therefore the preferential right to purchase will not be exercised. Failure to provide such notice within the ten (10) day period shall be considered a withdrawal of a non-transferring Party's election or failure of such written notices to collectively fully subscribe the Working Interest offered shall be considered a withdrawal of all non-transferring Parties' election.

The Transfer of Interest shall be concluded within a reasonable time, but no later than one hundred and twenty (120) days after the PRP Period.

24.2.3 Transfer of Interest Not Affected by the Preferential Right to Purchase

Subject to Article 24.1 (*Transfer of Interest*), Article 24.2 (*Preferential Right to Purchase*) shall not apply when:

Any Party proposes to:

- (a) mortgage, pledge, hypothecate, or grant a security interest in all or a portion of its Working Interest (including assignments of Hydrocarbon production executed as further security for the debt secured by that security device), or
- (b) grant an overriding royalty, a net profits interest, or a production payment, or

(c) dispose of a portion or all of its Working Interest by:

- (i) an exchange of properties of similar value; or
- (ii) merger, reorganization, or consolidation; or
- (iii) a Transfer of Interest of all or substantially all of a Party's exploration and production properties in the Gulf of Mexico; or
- (iv) a Transfer of Interest to an Affiliate; or
- (v) a Transfer of Interest pursuant to Articles 16 (*Non-Consent Operations*), 17 (*Withdrawal From Agreement*), and/or 18 (*Abandonment and Salvage*); or
- (vi) conveys an interest to another Party in satisfaction of said other Party's security rights under Article 6.3 (Security Rights) of this Agreement, if applicable.

24.2.4 Completion of Transfer of Interest

If the proposed Transfer of Interest is not executed and filed of record with the DOI within ninety (90) days after Receipt of the transfer notice by the non-assigning Parties, or if the terms of the proposed Transfer of Interest conveyance are materially altered, the proposed Transfer of Interest shall be deemed withdrawn, and the Working Interest included in the proposed Transfer of Interest shall again be governed by this Article 24.2 (*Preferential Right to Purchase*).

ARTICLE 25 – FORCE MAJEURE

25.1 Force Majeure

If a Party is unable, wholly or in part because of a Force Majeure, to carry out its obligations under this Agreement, other than the obligation to make money payments, that Party shall give the other Parties prompt written notice of the Force Majeure with full particulars about it. Effective upon the date notice is given, the obligations of the Party, so far as they are affected by the Force Majeure, shall be suspended during, but no longer than, the continuance of the Force Majeure. Time is of the essence in the performance of this Agreement, and every reasonable effort will be made by the Party to avoid delay or suspension of any work or acts to be performed under this Agreement. The requirement

1 that the Force Majeure be remedied with all reasonable dispatch shall not require a Party
2 to settle strikes or other labor difficulties.

3 **ARTICLE 26 – ADMINISTRATIVE PROVISIONS**

4 **26.1 Term**

5 This Agreement shall remain in effect so long as a Lease remains in effect and thereafter
6 until (a) all wells have been abandoned and plugged or turned over to the Parties owning
7 an interest in the Lease on which the wells are located; (b) all Production Systems,
8 Facilities, and equipment have been disposed by the Operator in accordance Article 18
9 (*Abandonment and Salvage*); (c) all Claims as defined in Article 22 (*Liability, Claims, and*
10 *Lawsuits*) have been settled or otherwise disposed of; and (d) there has been a final
11 accounting and settlement. In accordance with Article 4.5 (*Selection of Successor*
12 *Operator*), this Agreement will also terminate if no Party is willing to become Operator,
13 effective after all conditions in clauses (a) through (d) above have been completed.
14 Termination of this Agreement shall not relieve a Party of a liability or obligation accrued
15 or incurred before termination and is without prejudice to all continuing confidentiality
16 obligations or other obligations in this Agreement.

17 **26.2 Waiver**

18 A term, provision, covenant, representation, warranty, or condition of this Agreement may
19 be waived only by written instrument executed by the Party waiving compliance. The
20 failure or delay of a Party in the enforcement or exercise of the rights granted under this
21 Agreement shall not constitute a waiver of said rights nor shall it be considered as a basis
22 for estoppel. Time is of the essence in the performance of this Agreement, and all time
23 limits shall be strictly construed and enforced.

24 **26.3 Waiver of Right to Partition**

25 Each Party waives the right to bring an action for partition of its interest in the Unit Area,
26 Production System, Facilities, and equipment held under this Agreement, and covenants
27 that during the existence of this Agreement it shall not resort at any time to an action at law
28 or in equity to partition any or all of the Leases and lands or personal property subject to
29 this Agreement.

30 **26.4 Compliance With Laws and Regulations**

31 This Agreement, and all activities or operations conducted by the Parties under this
32 Agreement, are expressly subject to, and shall comply with, all laws, orders, rules, and
33 regulations of all federal, state, and local governmental authorities having jurisdiction over

1 the Unit Area. No Party shall suffer a forfeiture or be liable in damages for failure to
2 comply with any of the provisions of this Agreement if such compliance is prevented by
3 or if such failure results from compliance with any applicable law, order, rule, or
4 regulation.

5 **26.4.1 Applicable Law**

6 **THIS AGREEMENT AND THE RELATIONSHIP OF THE PARTIES**
7 **UNDER THIS AGREEMENT SHALL BE GOVERNED BY AND**
8 **INTERPRETED UNDER FEDERAL LAWS AND LAWS OF THE**
9 **STATE OF TEXAS, WITHOUT REGARD TO PRINCIPLES OF**
10 **CONFLICTS OF LAWS THAT WOULD OTHERWISE REFER THE**
11 **MATTER TO THE LAWS OF ANOTHER JURISDICTION.**
12 **NOTWITHSTANDING THE FOREGOING, THE PARTIES**
13 **ACKNOWLEDGE THAT THE LAW OF THE ADJACENT STATE**
14 **SHALL APPLY TO THE EXTENT REQUIRED BY THE OUTER**
15 **CONTINENTAL LANDS SHELF ACT.**

16 **26.4.2 Severance of Invalid Provisions**

17 If, for any reason and for so long as, a clause or provision of this Agreement is
18 held by a court of competent jurisdiction to be illegal, invalid, unenforceable, or
19 unconscionable under a present or future law (or interpretation thereof), the
20 remainder of this Agreement will not be affected by that illegality or invalidity.
21 An illegal or invalid provision will be deemed severed from this Agreement, as
22 if this Agreement had been executed without the illegal or invalid provision.
23 The surviving provisions of this Agreement will remain in full force and effect
24 unless the removal of the illegal or invalid provision destroys the legitimate
25 purposes of this Agreement, in which event this Agreement shall be null and
26 void.

27 **26.4.3 Fair and Equal Employment**

28 Each of the Parties is an Equal Opportunity Employer, and the equal opportunity
29 provisions of 30 CFR 270 and 41 CFR 60-1 are incorporated in this Agreement
30 by reference. The affirmative action clauses concerning disabled veterans and
31 veterans of the Vietnam era (41 CFR 60-250) and the affirmative action clauses
32 concerning employment of the handicapped (41 CFR 60-741) are also
33 incorporated in this Agreement by reference. In performing work under this
34 Agreement, the Parties shall comply with (and the Operator shall require each

independent contractor to comply with) the governmental requirements in Exhibit “E” that pertain to non-segregated facilities.

26.5 Construction and Interpretation of this Agreement

26.5.1 Headings for Convenience

Except for the definition headings in Article 2 (*Definitions*), all the table of contents, captions, numbering sequences, and paragraph headings in this Agreement are inserted for convenience only and do not define, expand, or limit the scope, meaning, or intent of this Agreement.

26.5.2 Article References

Except as otherwise provided in this Agreement, each reference to an article of this Agreement includes all of the referenced article and its sub-articles.

26.5.3 Gender and Number

The use of pronouns in whatever gender or number is a proper reference to the Parties to this Agreement though the Parties may be individuals, business entities, or groups thereof. Reference in this Agreement to the singular of a noun or pronoun includes the plural and vice versa.

26.5.4 Joint Preparation

This Agreement shall be deemed for all purposes to have been prepared through the joint efforts of the Parties and shall not be construed for or against one Party or the other as a result of the preparation, submittal, drafting, execution, or other event of negotiation hereof.

26.5.5 Integrated Agreement

This Agreement contains the final and entire agreement of the Parties for the matters covered by this Agreement and, as such, supersedes all prior written or oral communications and agreements. This Agreement may not be modified or changed except by written amendment signed by the Parties.

26.5.6 Binding Effect

To the extent it is assignable, this Agreement shall bind and inure to the benefit of the Parties and their respective successors and assigns, and shall constitute a covenant running with the land comprising the Unit Area. This Agreement does not benefit or create any rights in a person or entity that is not a Party to this Agreement.

